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West Europe Report



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POLITICAL

DENMARK

GOVERNMENT SEEKING WAY TO REGAIN INITIATIVE IN PARLIAMENT

Copenhagen BERLINGSKE TIDENDE in Danish 8 May 86 p 4

[Commentary by Carl Otto Brix: "Government Wants to Win Back the Initiative in the Folketing"; first paragraph is BERLINGSKE TIDENDE introduction]

[Text] The feeling that the government is allowing itself to be led around the circus ring by "the other majority" is of increasing concern to the government parties, and therefore such heretical ideas are being heard as surplus distribution and modernization of the public sector.

The government has lost the initiative which it had so abundantly when it began in September 1982. This is being felt in the government parties, and ideas about how this development can be changed are growing stronger as the Folketing election gets closer.

Frankly, the members of the government parties fear that they will lose the election if they do not quickly find out how to capture the initiative and regain the confidence of the voters, as they believe that only this government can lead the society in the right direction.

The government parties believe that they have a strong card in their hand with the more and more realistic-sounding talk of a combined government of Social Democrats and the Socialist People's Party. They figure that it will send a shudder through many voters—including Social Democrats—that Gert Pedersen could become the foreign minister or finance minister.

But that kind of talk about "a cabinet of horror" is not enough to win an election. The government parties themselves must make a move.

It is here that the idea of a distribution of surplus (OD) comes into the picture. Previously the government crossed itself seven times when there was talk of a forced or obligatory surplus distribution. In return it expressed pleasure over every voluntary agreement.

Now there must be a proposal from the government to make surplus distribution so fertile that only certain outsider activities will be excluded. That is how it sounds from politicians in the government parties.

Only through an OD arrangement can it be made clear that the tight income policy will be continued. And only through an OD arrangement can the necessary private savings be created.

The government's Achilles heel is the deficit in the balance of payments. It will not get better until the Danes realize that it can pay to save instead of borrow. A change in mentality is needed, and the government will not succeed until it creates confidence that the krone will not continue to lose value.

Beside the somersault of government legislation of an OD, there will be a modernization of the public sector, according to the same politicians. They expect, as the government has since its beginning, to include the concept of productivity in public administration.

Otherwise there will be a greater and greater distance between the public and the private sectors, to the disadvantage of both.

The government is in the minority, not only on security policy questions, but also on environmental issues, culture, land tax, even on fertilizer tax, and it must be satisfied with administering the other majority's policies. That is the reason why government politicians in meetings with the voters get the feeling that the government's time is running out unless during the last few months before an election it puts popular, debatable, real political proposals on the table.

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POLITICAL

DENMARK

SCHLUTER MUST FIND NEW THEME AFTER 'RECOVERY POLICY' SUCCESS

Copenhagen BERLINGSKE TIDENDE in Danish 26 May 86 p 8

[Commentary by 'Monitor': "How Long For the Recovery Policy"; first paragraph is BERLINGSKE TIDENDE introduction]

[Text] The nonsocialist government can not merely live on the fact that it is not like the old government of Anker Jorgensen. It will be judged on its own merits. And if it is to be more than a parenthesis in history it can not be satisfied with crisis policies. There will be a time after the crisis. So what should they do?

Things are going inconceivably well, said the prime minister a couple of months ago. Others are having a hard time understanding the prime minister on this point. Shipowner Maersk McKinney Moller criticizes the government for its tax policies, leading liberal politicians to believe there has almost been enough of giving in to the other majority, and lately the dissatisfaction has spread to the prime minister's own party. The minister of justice is not entirely happy with having to conduct a tight policy all the time, and although he denied over the radio that he criticized the Easter package to WEEKENDAVISEN, he maintained that the recovery policy created difficulties for nonsocialist voters.

Both the prime minister and those who are dissatisfied are correct. To the voters the government represents both a success and a problem. The recovery policy has succeeded on most points, and it is very popular with the voters. The latest Gallup Poll in BERLINGSKE SONDAAG on 18 May showed that there is almost total agreement with the tight income policy. But at the same time the recovery policy is giving the government problems. There is little maneuvering room to accomodate special nonsocialist wishes, and there is a question about how long they can keep Denmark away from the precipice. Finally people can not remember that we were in the process of going over it. And the better it goes with the economy the more difficult it will be to tighten up again. A crisis policy which succeeds removes its own reason for being.

The theme of the recovery policy has given the government a long tether with the voters. There have been many investigations of how the voters react to oscillations in employment, inflation, taxes, etc. One can easily see how the

Gallup figures are influenced by developments in the dimensions of the economy. There are variations from investigation to investigation and from country to country, but the dominant result is naturally that governments are rewarded for good results and punished for bad. It is also demonstrated that the voters do not merely look at how things are going at the moment. It is also important how things were going previously. Good results are even better if the previous results were catastrophic. None of this is perhaps surprising. But the investigations actually show that distribution policies are not solely responsible for voter reactions. Even though a majority must pay for a recovery policy, governments do not automatically go into the minority on election day. If a unified economy succeeds, governments can manage.

In this connection, the nonsocialist government had the best possible starting point. In 1982 everybody knew that there should be another change of course. Things were miserable in almost all economic quarters. And there was also a problem about who should carry out the change of course. In any case Anker Jorgensen could do no more. The government did remarkably well in the 1984 election. The Social Democrats had hoped to play on the dissatisfaction with the government's intervention, and it had been rather expensive for many. Because the government let taxes rise, but froze public expenditures. People had to pay more without getting more for their money. If the voters had only thought about their own short-sighted differences with the treasury the government would have lost the election. But the improvement in the economy was enough to produce another result. Since the election the government has also stood high in the opinion polls. It merely had to show that the ship of state was saved. And on most points it was easy. Inflation fell, as well as interest rates. Employment rose and the balance is closer between the nation's income and expenditures. Only taxes and the balance of payments problems remain. But they were also there before.

References to the situation in 1982 have been one of the government's best cards. But how long can they continue to use it? Of course the voters compare current developments with what happened before and judge the government accordingly. But the past has steadily decreasing weight the farther back it goes, and the most optimistic opinion says that the effect of good or bad economic development can be detected in opinion polls for up to four years. It is actually nearly four years since "Anker chucked away the responsibility," and so it should no longer be useful to refer to old events. If interest rates continue to rise it will also be a poor excuse for the government merely to point out that they were still higher under Anker Jorgensen. Because the past 3-4 years have shown that we can be satisfied with lower interest. And the same with the other economic indexes. "1982" is beginning to appear uncertain.

The government can still for a time take advantage of an entirely different comparison. The voters do not need to think about 1982 and the former government of Anker Jorgensen. They can just think about a new Social Democrat [S] government with support from the Socialist People's Party [SF]. Sober-minded Social Democrats can of course say that one must first lay out a strict line in order to grant improvements later. But the S-SF alternative can scarcely go into an election saying that they will have almost the same

recovery policy as Schluter. In addition SF, aided by SID [Unskilled Workers Union] and others, will allow the fantasy to play out by pointing out groups which demand improvements here and now. S-SF will have problems explaining how a "social recovery" will be financed. With higher taxes or new state borrowing? The so-called "Anker Jorgensen effect" in which the stock market reacts with increased interest rates when S-SF moves forward will certainly sustain the fear that we face an uncertain future with a "red cabinet."

But both the comparison with 1982 and the fear of the S-SF alternative assume that the voters still see a certain risk that we are rushing toward the precipice. But how long will this risk be felt when even the prime minister says that "things are going inconceivably well"? This may possibly bring about an entirely new problem. As long as they were talking about a national debt of 60-80 billion, that was in accordance with good economic management practices, and we were consuming a little too much. But with a near balance or even a little surplus it is difficult to explain why we cannot afford improvements here and there. Today we see improvements in daily allowances and termination of the waiting days for health insurance. Jorgen Goul Andersen from the Institute for Political Science has actually pointed out that the voters want more welfare expenditures, and the desire has increased in recent years. And is the opposite necessarily true with increasing taxes?

A recovery policy can be carried out for a time, until it apparently succeeds. But the nonsocialist concern is a sign that we are approaching the more traditional Left-Right policies, in which voters want nonsocialist policies carried out, and voters on the Left want more welfare. It is difficult to fit the recovery policy into the traditional Left-Right pattern. In theory a nonsocialist government could almost certainly improve the national finances by itself with the help of savings and avoid any tax increase. But an investigation by Hans Jorgen Nielsen from the University of Copenhagen showed that even during the Glistrup wave in 1973 welfare expenditures were fully accepted by the voters, including the Progressive Party. Correspondingly Ole P. Kristensen from the Institute for Political Science pointed out that the voters would like to save, but not in the major welfare areas, and so it is difficult to save large amounts without becoming basically unpopular. Goul Andersen's new findings point in the same direction. Fewer cuts combined with a basic freeze in public expenditures is probably the maximum goal of what can be acceptable without losing voters. And without a majority in the Folketing they must furthermore have support from the Radical Liberal Party.

In theory a Social Democrat government could carry out a recovery policy by itself with the aid of tax increases. But an election defeat would be the certain outcome.

In practice there is very little maneuvering room between considerations of welfare and considerations of taxes. A nonsocialist government can believe that the money is better off in nonsocialist pockets. But the finance minister must nevertheless retain it in the national treasury. It is therefore not so remarkable that the present government is criticized for carrying out "social democratic policies." And if a social democratic government really wanted to carry out a recovery policy there would also be a conflict. A social democratic government can wish for all possible welfare

arrangements. But it must at the outset be satisfied with collecting the money. Then they can see later whether it would be better to do it in the last part of their governing period. Ideologists become dead creatures if they try to carry out recovery policies.

No party and no government can do it for long. If the recovery policy fails, they lose. If it succeeds they become superfluous. The nonsocialist government cannot simply live on the fact that they were not like Anker Jorgensen's old government. They will be judged on their own merits. And if they want to be more than a parenthesis in history they can not be satisfied with crisis policies. There will be a time after the crisis. So what should they do?

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POLITICAL

DENMARK

UNSKILLED WORKERS' UNION OFFICIAL OLE SOHN NEXT CP CHAIRMAN

Copenhagen BERLINGSKE TIDENDE in Danish 23 May 86 p 13

[Article by Thorkild Dahl: "SID Leader to Top of CP"; first paragraph is BERLINGSKE TIDENDE introduction]

[Text] In less than a year the Danish Communist Party [CP] will select a new chairman to replace Jorgen Jensen, and the chairman of SID [Unskilled Workers Union] in Horsens, Ole Sohn was designated by the CP leadership at a meeting of the Executive Committee.

The next chairman of the Danish CP will be Ole Sohn, who is the chairman of SID in Horsens. The current CP chairman, Jorgen Jensen will retire at the congress in April 1987.

This was reported by the weekly newspaper SOCIALISTISK WEEKEND today, citing an unnamed source in the party's Central Committee.

The decision to choose the prominent union man Ole Sohn was made at an Executive Committee meeting on 15 May, and the choice of the top leadership will be presented to the entire Central Committee at a meeting in June.

SOCIALISTISK WEEKEND characterizes Ole Sohn as a popular figure in the Danish CP.

Previously two members of the People's Movement Against the EC in the European Parliament, Else Hammerich and Jens Peter Bonde were named as top candidates for the post of chairman to succeed Jorgen Jensen, who has never been able to create the same political drawing power as Knud Jespersen.

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POLITICAL

DENMARK

LABOR UNION NEWSPAPER SKEPTICAL TOWARD SDP, SF GOVERNMENT

Copenhagen BERLINGSKE TIDENDE in Danish 11 May 86 p 7

[Article by Henrik Damm: "METAL: SF Has Government Fever"]

[Text] There is a large question mark about SF's [Socialist People's Party] ability to adapt itself to being a proficient government partner.

"SF has government fever--the cabinet itch! The party wants a gang of ministers on the government benches, and is ready to come under 'the yoke of responsibility' if power comes with it..."

In the latest number of the union newspaper METAL, which is published by the Danish Metalworkers Union, large question marks are raised about SF's ability to enter as a proficient partner in an eventual S-SF government. In an editorial it was stated, among other things:

"Will the party be able to resist a rent increase, greater wage pressure, reduction of the deficit in the balance of payments and thereby limit the possibilities for social improvement which the voters expect? Is SF mature and strong enough as a party to take the bitter wear and tear and economic opposition that a red cabinet will be exposed to?"

"How will SF react to negative stock market swings with currency and bond declines, weakening export possibilities, mounting unemployment? In sum, how long will SF last under the yoke of responsibility? The question is relevant in the midst of SF's frisky enthusiasm over the prospects of cabinet posts and a red majority."

The editorial also questions whether SF can realign itself from being "a protest party free of responsibility based on raising the bidding to being a proficient government partner with the Social Democrats." That is mostly due to doubt about SF's willingness to take hold of the root of the evil--economic policies and relations with NATO and the EC. Where will the party position itself, asks the newspaper, which moves close to former Prime Minister Anker Jorgensen's (SDP) statement that there will first be negotiations following an election.

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POLITICAL

FEDERAL REPUBLIC OF GERMANY

IMPACT OF UNCERTAIN LABOR MARKET ON VOTING HABITS STUDIED

Bonn DAS PARLAMENT (AUS POLITIK UND ZEITGESCHICHTE supplement) in
German 26 Apr 86 pp 3-18

[Article by Hubert Krieger: "Labor Market Situation and Political
Stability--Reaction Patterns of Wage Earners on Labor Market Trends
1975-1985"]

[Excerpts] I. Basic Premises

Employment continues to be the No 1 domestic policy issue in the FRG. The fact that unemployment continues at the 2-million mark and that prospects for the labor market of the late eighties are dim is having an impact on the political opinion climate. The outcome of the North Rhine-Westphalia provincial assembly election in May 1985 in which the CDU was badly beaten was determined among other things by voter disappointment over the fact that the economic recovery did not have any tangible effect on the labor market situation.

But how do the individuals concerned react to this situation? In addition to the unemployed who are most affected by the employment crisis, the economic crisis is also having an impact on some wage earners who are (still) holding down jobs. Empirical studies have shown that relatively large groups of wage earners are deeply worried about losing their job. During the first half of 1985, 13 percent of the wage earners voiced the fear that their job would be less secure in the future. 35 percent felt that the threat to their job would remain the same. Half of the respondents said that the danger of losing their job over the next few months was slight or becoming less serious. This study therefore focuses on those wage earners who are afraid of losing their job.

The political attitudes of this group of wage earners will be analyzed on the basis of the following questions:

1. What political reactions can be observed among this group of people who have been affected by the crisis?

2. Do those threatened by the loss of their job turn their back on the established political parties and do they cast a protest vote for a far-right or far-left party such as the Greens ?
3. Do they issue "a warning" to the government coalition and do they show more of a preference for the established opposition parties ?
4. What is the extent to which lasting identical or similar reaction patterns may be observed among those wage earners whose job is in danger ? Are the political responses of the latter, affected by the 1981-1984 crisis, comparable to reactions during the 1975-1976 crisis or are there substantial differences, determined by the situation ?

In analyzing these questions, we have made use of polling data collected in countrywide representative sample studies conducted by "infas" between 1975 and 1985. Some 13,000 eligible voters were polled on a semi-annual basis.

II. Political Attitudes of Wage Earners Whose Job Is Threatened

A significant group of crisis losers are those wage earners who feel that their own job is threatened at some future time. During the first half of 1985, just under two-thirds of the latter stated their preference for the SPD. This means that the SPD share has more than doubled since the second half of 1981.

As far as the CDU/CSU was concerned, the trend is negative. Only 19 percent of those in fear of losing their job said they preferred the CDU/CSU during the first half of 1985. During the second half of 1984, the comparable figure even went down to 17 percent. As compared to the 1981 benchmark situation, the CDU/CSU share of this voter group had been cut by more than half. At that time, 43 percent of these voters opted for the CDU/CSU--which meant that the party was substantially ahead of the then ruling SPD.

During the first half of 1985, the Greens made up for 8 percent of this group of voters, which indicates a drop of 7 percentage points since the second half of 1984. Ever since 1982, the Greens' share among this group had been increasing from a low of 6 percent. In the second half of 1983, it stood at 10 percent and by the second half of 1984 had climbed to 15 percent.

Since the change of government in Bonn, the FDP has not had any appreciable impact on the attitudes of those worried about losing their job; only one percent of the latter opted for the FDP in the first half of 1985. The liberals' decline among this group of voters is significant, considering the fact that 7 percent of them still stated their preference for the FDP during the Bundestag election campaign in 1980.

In the early eighties, another significant sign of movement within this group of voters showed up. Just prior to as well as during the course of the 1980 Bundestag campaign, the SPD (the party in power) was well ahead of the CDU/CSU. During the first half of 1980, 45 percent of those in fear of losing their job preferred the SPD; the corresponding CDU/CSU figure was 34 percent. During the first half of 1981, as unemployment reached the one-million mark, the two parties' percentages were nearly equal, i.e. the SPD stood at 38 percent and the CDU/CSU at 37 percent.

The political effect of the fear of losing one's job becomes particularly clear when the party preferences of this group are figured on the basis of the total number of voters. Taking some 21 million wage earners as a base for 1985 and subtracting all those not eligible to vote (e.g. foreign nationals, the under-18 age group) from this number, we are left with about 19 million wage earners eligible to vote.

During the first half of 1985, 13 percent of the latter stated that they were fearful about losing their job at some time in the future. This adds up to about 2.5 million voters. The proportion of those threatened by a loss of employment of the total electorate thus amounts to 5.6 percent (where the total electorate is figured at 44 million).

Converting these proportions into absolute numbers as well as percentages of votes, we arrive at the following distribution among the four Bundestag parties for the first half of 1985:

	<u>Total Vote</u>	<u>Percent</u>
CDU/CSU	0.48 million	1.1
SPD	1.58 million	3.6
FDP	0.02 million	0.0
Greens	0.20 million	0.4
Not voting	0.22 million	0.5

What is the proportion of crisis losers of the total vote of the party concerned? Based on the June 1985 figures,³ 2.6 percent of all CDU voters are wage earners afraid of losing their job. The corresponding figure for the SPD is 8.4 percent; for the Greens it is 6.7 percent and for the FDP it is less than 0.01 percent.

IV. Anti-Government Attitudes Among Those Afraid of Losing Their Job (1980-1985)

Having discussed the political reactions to the employment crisis among those wage earners who are afraid of losing their job, we now turn in the following two sections to the question of whether the political responses of this group are determined by anti-government attitudes or rather by ingroup considerations. In analyzing this question, we will be focusing

on a comparison of political attitudes of those afraid of losing their job with the attitudes of wage earners generally. In view of the structural discrepancies, a comparison with the political attitudes of the electorate as a whole does not seem indicated.

Party Preference

The anti-government thesis holds that those afraid of losing their job would always voice more of a preference for the opposition parties than wage earners in their entirety. This hypothesis turns out to be correct at least insofar as the 1980-1985 time frame is concerned. Let us first have a look at the final stage of the socialist-liberal era, i.e. the period from the first half of 1980 to the first half of 1982. Throughout this time period, those afraid of losing their job leaned toward the opposition to a greater extent than wage earners in general. During the first half of 1980, the SPD was 23 points ahead of the CDU/CSU among all wage earners but only 11 points ahead among those afraid of losing their job.

By the second half of 1981, major shifts had taken place among both groups. Among the wage earners overall, the CDU/CSU now was four points ahead of the SPD--and among those afraid of losing their job even 12 points. With the change in government in Bonn in the fall of 1982, the picture changed as well. The SPD, now in the opposition, was clearly ahead of the CDU/CSU once again. By the first half of 1983, the party index (i.e. the CDU/CSU party preference minus the SPD preference) among wage earners generally stood at + 7 and among those afraid of losing their job, the SPD was 17 points ahead of the CDU/CSU, i.e. there was a difference of 24 points between the two indicators. This gap, serving as an indicator of the opposition effect, continued to grow with the passage of time. In the first half of 1985, the SPD was 44 points ahead of the CDU/CSU among the crisis victims. Among wage earners generally, the SPD was ahead by 15 points which converts into an opposition effect of 29 points. In sum, we may therefore state that any threat to jobs results in distinct confirmation of the anti-government hypothesis.

Confidence

An important variable which helps explain the emergence of the anti-government effect are the political confidence indicators vis-a-vis the chancellor and the federal government. These are operationalized by the "confidence in government policies" and the "chancellor image" indicators. The anti-government hypothesis holds that those fearful of losing their job should be more critical of the government and the chancellor than wage earners generally.

This hypothesis proves absolutely correct for the evaluation of government policies in the first half of the eighties. At all times, the index figure "positive assessment" minus "negative assessment" of the government in power at any given time is more favorable among wage earners in general than among those afraid of losing their job. The difference between the two was particularly marked during the first half of 1983 and the second half of 1984. Around the time of the 1983 Bundestag election, the government was given a +14 approval rating by wage earners generally and a -30 rating by those afraid of losing their job--which converts into a spread of 44 points.

The anti-government effect was even more marked among those afraid of losing their job toward the end of 1984. At that time, the rating was -58 among the latter and -9 among wage earners generally, i.e. a spread of 49 points.

The anti-government effect is not as pronounced when it comes to the chancellor image. This was particularly true prior to the change in government when Helmut Schmidt had a higher approval rating on occasion among those afraid of losing their job than among wage earners generally. The display of confidence in Schmidt was most pronounced around the time of the 1980 Bundestag election. At that time, his approval rating among the crisis victims stood at +74 and at +66 among all wage earners.

But after the change of government in Bonn, the anti-government hypothesis definitely held true as far as those afraid of losing their job were concerned. In the first half of 1983, the chancellor had a +10 approval rating among all wage earners and a -30 rating among those afraid of losing their job. Similar figures applied in the middle of 1985.

Generally speaking then, the anti-government hypothesis is borne out by the political confidence indicators. The sole exception was the situation around the time of the 1980 Bundestag election when Helmut Schmidt was able to hold on to those afraid of losing their job on the basis of his great expertise in economic policy. The recession in the winter of 1980/81 and deteriorating economic conditions up to the winter of 1982/83 managed to shake the confidence of the endangered jobholders in Chancellor Schmidt's economic know-how, however.

Context Effect

This raises the further question of whether the endangered jobholders tend to prefer the opposition parties more as unemployment rises and whether the labor market factor thus tends to strengthen the anti-government effect. In the case of this particular group of crisis victims, if there was anything like a connection between labor market trends and the intensity of the anti-government effect, it occurred in 1980 and 1981. At that time, the jobless rate climbed from 3.8 to 5.5 percent and during the same time period, the opposition CDU/CSU's preference rating climbed from -13 to +15.

A further rise in unemployment in 1982 did not result in a rise in the anti-government effect among those afraid of losing their job. In spite of a rise in the jobless rate from 5.5 to 7.5 percent in 1982, the CDU/CSU advantage did not drop in the first half year of 1982 as compared with the second half of 1981. Nor can the trends between 1983 and 1985 be explained by means of the nationwide jobless rate. Although that figure remained more or less constant, there was a rise in the anti-government effect among those afraid of losing their job.

V. Ingroup-Related Voting Patterns Among Endangered Jobholders in the Eighties

While the anti-government hypothesis lays stress on putting the blame on the political system, the ingroup hypothesis places the emphasis on regular voter patterns and their constancy even in times of crisis. It might be assumed in this connection that those afraid of losing their job would have a greater affinity for the SPD as a matter of principle than the wage earners as a group. As far as the final stage of the socialist-liberal era, from early 1981 to the middle of 1982 is concerned, that particular hypothesis does not hold water. During part of that time period, the CDU/CSU had a distinct advantage over the SPD among the endangered jobholders. During the second half of 1981, for example, the CDU/CSU got 51 percent of that group's votes and the SPD only 36 percent.

Nor does a comparison of the government indicators as between those worried about losing their job and the wage earners as a group point to anything like ingroup attitudes among the former.

Summarizing the results obtained thus far, the ingroup hypothesis does not apply in any general way, i.e., when all wage earners are matched with all endangered jobholders. Fear of losing their job results in a "hard" anti-government stance among those whose job is endangered.

The analysis of the political impact of crisis situations on the unemployed also made it plain that empirical proof at the general level did not necessarily constitute empirical proof of the political attitudes of relevant subgroups.⁴ The next step in our investigation will attempt to analyze the party loyalty of major groups of regular SPD and CDU/CSU voters among the crisis victims. The regular SPD voters are defined for this purpose as blue-collar workers as well as unionized white-collar workers; the regular CDU/CSU voters are defined as those belonging to the "old center" and to the traditionally Catholic area.

Group-Specific Results

Summarizing the results of the empirical analysis, we find that there is an anti-government effect among all groups of regular voters in the first half of the eighties. The jobless among the regular voters of

both major parties reacted in different ways to the crisis situation; the reaction of those afraid of losing their job, on the other hand, was uniform. This is true both at the aggregate level and among the relevant regular voters for the two major parties.

Let us document the following results for the blue-collar group: In the first half of 1980, the SPD was 48 points ahead of the CDU/CSU among blue-collar workers. Among those threatened by the loss of their job, the SPD advantage was less pronounced. In the early eighties, it obtained a -35 rating, i.e. it was 35 points ahead of the CDU/CSU in terms of party preference. By the second half of 1982, the SPD ratings among the endangered jobholders were consistently below those of the wage earner group as a whole.

Following the change of government in Bonn, SPD preference ratings rose almost immediately among those afraid of losing their job and their anti-government stand resulted in a clear SPD advantage as compared to the rating for wage earners as such. By the second half of 1983 the SPD was 52 points ahead of the CDU/CSU among the endangered jobholders. Among all wage earners, its advantage amounted to only 28 points. During the first half of 1985, the SPD advantage among both groups increased still further. Among blue-collar crisis victims, the SPD is presently 65 points ahead.

The anti-government effect is almost as marked among the second group of regular SPD voters, i.e. the unionized white-collar workers. Up to the beginning of 1982, the CDU/CSU did better among this segment of crisis victims than among wage earners as a group. In the first half of 1980, for example, the CDU/CSU was 21 points behind the SPD among the endangered jobholders but was 40 points behind the SPD among the unionized middle class, i.e. the CDU/CSU rating at that time was -40.

Following the change of government in Bonn, the SPD started to gain once more among the endangered jobholders. By early 1985, it was 53 points ahead of the CDU/CSU among this group of voters.

The same pattern holds true for the CDU/CSU regular voters of the "old center" and the "traditional Catholic" groups. Up to the change in government in October 1982, the CDU/CSU did better among the endangered jobholders in these groups than among wage earners as a whole. Following the change of government, the crisis victims in both groups began to turn their backs on the CDU/CSU. By early 1985, the SPD was clearly ahead of the CDU/CSU among both groups of regular voters--by 20 points in the one case and by 45 points in the other.

VI. The Potential of Extremist Parties in the Eighties

The impact of mass unemployment during the final stages of the Weimar Republic has aroused a special sensitivity in the FRG for trends which tend to threaten the political system and which might be triggered by a reaction to crisis. Our analysis thus far, however, has shown that a classical extremist party does not play any role in elections or expressed party preferences in the eighties. Only the Greens are currently able to make any headway as a non-established leftwing fringe party among the unemployed and those in fear of losing their job.

The question remains whether there might not be some extremist shifts taking place underneath the relatively calm surface which cannot be measured with the help of existing indicators. The sample was therefore polled on the basis of "softer" indicators, i.e. we tried to find out whether the respondents had ever voted for a political party to the left of the SPD or to the right of the CDU/CSU or, for that matter, whether they felt that some such party could possibly be elected in the future. Those who answered in the affirmative were then categorized as rightwing or leftwing potentials. For another thing, it may be surmised that some of the protesters are ideological floaters who may be counted among either or both of the extremist potentials.

During the first half of 1985, 18 percent of the endangered jobholders toyed with the idea of an extremist fringe party. This corresponds to the average percentage for the first half of the eighties. In the first half of 1980, the figure stood at 14 percent and the high, in the first half of 1983, was 26 percent.

Analyzing the two fringes of the party spectrum, there is a distinct preponderance of the leftwing potential among the endangered jobholders in the first half of 1985. The ratio between left and right stands at 11 percent to 5 percent. Between early 1983 and late 1984, the leftwing potentials were even farther ahead.

A different pattern could be observed up to the second half of 1982. In the early eighties, the number of supporters of leftwing and rightwing fringe parties among those afraid of losing their job was about the same. There seems to be a close connection between the shift in the leftwing potentials among the endangered jobholders and the Greens' success in obtaining seats in parliament. As soon as the Greens exceeded the 5-percent limit in the 1983 Bundestag election, they became the rallying point of the protesters among those afraid of losing their job. The unemployed followed a similar pattern.

On the other hand, the attractiveness of the left end of the political spectrum depends on the political situation. The proportion of the left fringe potential among the crisis victims rose both during the "arms modernization debate" in the latter half of 1983 and in the aftermath of the party fund raising affair in the latter half of 1984.

Overall, however, the fringe voter potential is of no particular significance. With respect to the left end of the spectrum, the Greens are acting as a kind of hinge by integrating a part of the economically motivated protest voter potential into the parliamentary system.

VII. Political Reactions of Endangered Jobholders in the Late Seventies

Thus far, we have been analyzing current political attitudes of crisis victims in the eighties. Are the reaction patterns specific reaction patterns of crisis victims which manifest themselves only within the context of economic and social conditions in the eighties or can similar or even identical patterns be observed in the FRG at other-times of crisis ? This question will now be analyzed retrospectively with regard to the economic crises of the mid-seventies.

Party Preferences of Endangered Jobholders 1975-1979

In the winter of 1974/75 the FRG was hit by a second major economic crisis. While the annual unemployment rate for 1974 stood at 2.5 percent and the jobless rate at the start of the decade had stood at less than one percent, it jumped to 4.7 percent in 1975. In that year, the number of unemployed was 1.074 million, topping the million mark for the first time since 1954.

Given these conditions, the CDU/CSU was able to move ahead of the SPD among the crisis victims. In the latter half of 1975, for instance, the CDU/CSU share was 43 percent as against 35 percent for the SPD.

Around the time of the 1976 Bundestag election which was characterized by a particularly sharp polarization of the two major political parties, the CDU/CSU even managed to increase its lead. In the second half of 1976, 53 percent of the endangered jobholders opted for the CDU/CSU as against 30 percent for the SPD.

As the economic situation began to stabilize and unemployment declined by the late seventies, the SPD made up some lost ground among the endangered jobholders and by late 1977, the SPD had a slight lead over the CDU/CSU once more.

In contrast to the present situation, the FDP did play something of a role among those afraid of losing their job in 1975 and 1976. The liberals managed to pick up between five and six percent of the voters in this group during this period. During the first half of 1976, they even had nine percent of the vote; but by the end of the seventies the FDP's influence among these voters had declined. Other political parties, e.g. the DKP and the NPD in particular hardly profited from the relatively strong surge in unemployment in the mid-seventies. The "other political parties" received three percent of the vote at most in 1975/76 and only two percent in 1977.

Here we can see an important difference to the 1981/84 crisis situation: during the crisis of the eighties, a strong, non-established fringe party (i.e. the Greens) emerged and has made a substantial impact on the crisis victims; but there was no comparable development between 1975 and 1976.

Anti-Government or Ingroup Attitudes ?

We took note of the distinct anti-government attitudes among endangered jobholders in the eighties. Were the results obtained for the seventies similar or not ? In the nationwide political context of the latter half of the seventies, such an anti-government stance would have manifested itself, if those in fear of losing their job might have stated a greater preference for the CDU/CSU than wage earners overall. The findings are clear: starting in early 1975, the endangered jobholders were more critical of the government at all times than the category of wage earners as a whole. The anti-government hypothesis thus proves correct not only in the eighties but also in the latter half of the seventies.

Around the time of the 1976 Bundestag election, the anti-government effect was especially pronounced. In the second half of 1976, the SPD was 12 points ahead of the CDU/CSU among all wage earners. During that same period, the CDU/CSU was well ahead of the SPD among the endangered jobholders, i.e. by 23 points. This was the widest lead the opposition managed to hold during the entire 1975-1979 period. This provides proof of the anti-government effect while clearly discounting the importance of ingroup bonds.

Context Effect

What is the extent to which the crisis victims turned their back on the SPD and to what extent is this process being influenced by the size of the nationwide unemployment rate ? In other words, can it be proven that there is a clear connection between anti-government attitudes and the national unemployment rate ?

This assumption can only partially be proven both as regards the latter half of the seventies and the eighties. It seems as though party preference trends among endangered jobholders between 1975 and 1977 were influenced to a greater extent by the political situation (particularly by the 1976 Bundestag election in this instance) than by actual developments on the labor market. Although the jobless rate remained constant between 1975 and 1976, the CDU/CSU lead over the SPD climbed from five points during the first half of 1975 to 23 points in the second half of 1976 among the crisis victims. The distinct polarization noticeable throughout the electorate around the time of the Bundestag election seems to have intensified still further as a result of the individual concerns of the endangered jobholders.

But trends in the late seventies tend to support the assumed context effect. The decline in unemployment between 1978 and 1979 strengthened the SPD position among the endangered jobholders. In the second half of 1979, the SPD lead climbed to 16 points. But even in this regard the impact was not particularly clear, if one takes the 1979 figure into account (as against an index value of zero). In other words, the context effect cannot be fully confirmed for the seventies either.

Regular Voter Attitudes

The results of our analysis thus far have led us to the assumption that even the regular voters of the two major parties among the crisis victims tend to develop anti-government attitudes. Results for the eighties tend to confirm those for the latter half of the seventies. Both among blue-collar workers and the union-affiliated middle class as well as the "old middle class" the endangered jobholders developed a distinctly more critical stance toward the ruling SPD than the wage earner group as a whole.

This shows up very clearly among blue-collar workers. Around the time of the 1976 Bundestag election, the CDU/CSU managed to make inroads into this group of traditional SPD voters, receiving more votes (index figure: +9) than the SPD among crisis victims. But at that same time, the SPD still held a 48-point lead over the CDU/CSU among all blue-collar wage earners.

Among the union-affiliated middle class, too, the CDU/CSU achieved better-than-average results among the crisis victims between 1975 and 1977. In part, the opposition managed to win over a good many more endangered jobholders from the SPD ranks. At its highest point, the lead over the SPD amounted to 18 points. But among the wage earner category as a whole the SPD continued to enjoy a strong lead, i.e. between 18 and 34 points during the latter half of the seventies.

Within the CDU's own group of supporters the threat to jobs resulted in greater cohesion. Throughout the second half of the seventies, members of the "old middle class" in fear of losing their job stated a stronger preference for the CDU/CSU than wage earners overall. Among the latter, the CDU/CSU lead during this time period varied between +17 and -1 and among crisis victims the spread was between +44 and +14.

Let us summarize by stating that anti-government attitudes did show up in the seventies even among traditional SPD and CDU/CSU voters whenever wage earners belonging to these groups felt that their own job was in serious jeopardy. In other words, the anti-government effect provides evidence of a general reaction pattern over a period of 10 years among the endangered jobholders.

Significance of Political Protest Parties in 1975/76 Crisis

Looking at the range of political parties vying for voter support in the mid-seventies, one finds that in contrast to the 1966/67 crisis and the post-1981 situation no radical fringe party was able to gain anything like substantial support in communal, provincial or nationwide elections in the FRG.

This also applies to the endangered jobholder category. In 1975 and 1976, two to three percent of the members of this group stated their preference for "another party," i.e. the NPD or the DKP. The fringe parties were unable at that juncture to gain greater support among those wage earners who took a pessimistic view of their own economic situation. In other words, while a leftwing fringe party has proved attractive to those in fear of losing their job in the eighties, no major protest vote pattern and no major evidence of radicalization can be observed in this same group during the mid-seventies.

A "softer" indicator which helps to determine the protest voter potential tends to emerge when those polled are asked whether they would be prepared to vote for a party to the right of the CDU/CSU or to the left of the SPD. In this context, one will always encounter an ideologically independent segment of protest voters which may be included both in the leftwing and the right-wing potential. In contrast to their actual voting patterns, the crisis victims of the mid-seventies contributed heavily to the leftwing and right-wing fringe potential, i.e. between 20 and 22 percent between the first half of 1975 and the first half of 1976. As the domestic debate began to intensify around the time of the 1976 Bundestag election (as a result of the CDU/CSU's "freedom instead of socialism" campaign), the fringe party potential fell to 15 percent.

Throughout the entire period under consideration, the right-wing potential was preponderant. During the first half of 1975, 10 percent of those in fear of losing their job considered voting for a party to the right of the CDU/CSU or had already done so in the past while seven percent responded in favor of a leftwing party.

VIII. Differences and Similarities in Reaction Patterns of Endangered Jobholders in Crisis Situations in the Seventies and Eighties

Comparing different time periods makes it possible to analyze the question whether wage earners whose jobs are threatened will always react in specific ways in every economic crisis or whether similar or identical reaction patterns can be observed. When one compares the 1981-1984 crisis with the 1975/76 crisis, there are three points worth noting:

a) Starting in 1981, the crisis was accompanied by the formation of leftwing fringe party which managed to gain a substantial share of the crisis victim vote. During the 1975/76 recession, extremist fringe parties were not able to gain seats in either the Bundestag or the provincial parliaments. The NDP and DKP did not gain any substantial influence among the crisis victims.

b) The size of the protest vote potential and the number of endangered jobholders was almost identical in both crisis periods, i.e. between 15 and 25 percent. In the eighties, the share of the leftwing potential was larger whereas it was the right-wing potential which preponderated in the seventies.

c) Anti-antigovernment attitude is a basic pattern in the response of those in fear of losing their job. This applies equally to crisis victims as a whole and to the attitudes of crisis victims among the traditional voters for the two major parties. It was exactly the same in both instances.

The similar reaction patterns which may be observed among those afraid of losing their job are:

- the size of the protest voter potential and anti-government attitudes.

The specific reaction patterns are observable:

- in the relative political affinities of the protest vote potential and
- in the actual emergence of a fringe party which receives a higher-than-average share of the vote of those hardest hit by the crisis.

FOOTNOTES

1. The distribution overall was as follows: 13 percent said the threat to their job was immediate; 35 percent said the threat was "just as great" as before; 41 percent said it was "just as small" and nine percent said it had "grown less."
2. Voter turnout among endangered jobholders was 91 percent.
3. Votes for the different parties were divided up as follows: CDU/CSU and SPD 43 percent; FDP, 7.5 percent ; Greens, six percent.

4. Cf Hubert Krieger, "Anti-Government or Ingroup Hypothesis--Personal Concerns About Unemployment as Reflected in the Established Party Spectrum". POLITISCHE VIERTELJAHRESSCHRIFT, 1985, 4.
5. In this context, the Greens were labeled a leftwing party, since they themselves define their voters as belonging to the left end of the political spectrum. In other words, the designation does not reflect an attempt to pin an ideological label on the Greens.
6. The anti-government effect did not manifest itself on two occasions in the latter half of the seventies, i.e. during the first half of 1976 and the first half of 1979.

Table 1. Party Preferences of Endangered Jobholders

Table 1. Party membership of Bundestag committees												
	(1)		(2)									
	1. Hj. 1980	2. Hj. 1980	1. Hj. 1981	2. Hj. 1981	1. Hj. 1982	2. Hj. 1982	1. Hj. 1983	2. Hj. 1983	1. Hj. 1984	2. Hj. 1984	1. Hj. 1985	
CDU/CSU	34	34	37	43	42	38	29	23	21	17	19	
SPD	45	43	38	31	35	35	46	50	51	56	63	
FDP	2	7	8	6	3	1	2	1	2	2	1	
Grüne (3)	2	6	5	5	6	9	10	10	10	15	8	
Keine (4)	7	10	12	15	14	17	13	16	16	10	9	

Key:

1. First half (of year)
2. Second half
3. Greens
4. None

Table 2. Political Confidence Indicators Among Endangered Jobholders and Jobholders Overall (1980-1985)

Jobholders Overall (1980-1985)

		1. Hj.	2. Hj.	1. Hj.	2. Hj.	1. Hj.	2. Hj.	1. Hj.	2. Hj.	1. Hj.	2. Hj.	1. Hj.
		1980		1981		1982		1983		1984		1985
		(1) SPD-FDP-Koalition						(2) CDU/CSU-FDP-Koalition				
(3)	Sachpolitik der Bundesregierung ¹⁾											
(4)	Abhängig Beschäftigte insges.	41	46	11	-11	-16		14	4	-4	-9	-20
(5)	Vom Arbeitsplatzverlust Bedrohte	38	22	-16	-36	-31		-30	-46	-44	-58	-60
(6)	Kanzlerimage ²⁾											
	Abhängig Beschäftigte insges.	75	66	55	54	53		10	7	-2	-14	-27
	Vom Arbeitsplatzverlust Bedrohte	78	74	54	50	50		-30	-36	-48	-64	-66
(7)	1) Index: „gut“, „eher gut“, minus „schlecht“, „eher schlecht“											
(8)	2) Index: „guter Kanzler“, minus „schlechter Kanzler“											
(9)	Quelle: infas-Repräsentativerhebungen im Bundesgebiet (ohne West-Berlin), 1980—1985, halbjährlich ca. 13 000 Fälle, Random-Auswahl											

Key:

1. SPD/FDP coalition
2. CDU/CSU-FDP coalition
3. Government policy
4. Total jobholders
5. Endangered jobholders
6. Chancellor's image
7. Index: "good," "rather good;" minus: "poor," "rather poor"
8. Index: "good chancellor;" minus: "bad chancellor"
9. Source: infas representative FRG sample (excluding West Berlin) 1980-1985; ca. 13,000 randomly selected respondents semi-annually.

Table 3. Potential of Radical Fringe Parties Among Endangered Jobholders.

	1. Hj. 1980	2. Hj. 1980	1. Hj. 1981	2. Hj. 1981	1. Hj. 1982	2. Hj. 1982	1. Hj. 1983	2. Hj. 1983	1. Hj. 1984	2. Hj. 1984	1. Hj. 1985
(1) Rechtspotential	6	8	8	7	4	7	3	3	2	3	5
(2) Linkspotential	7	6	7	6	10	9	14	19	13	17	11
(3) Beides	1	2	3	3	4	3	1	4	4	3	2
(4) Summe	14	16	18	16	18	19	18	26	19	23	18

Key:

1. Right-wing potential
2. Leftwing potential
3. Both
4. Total

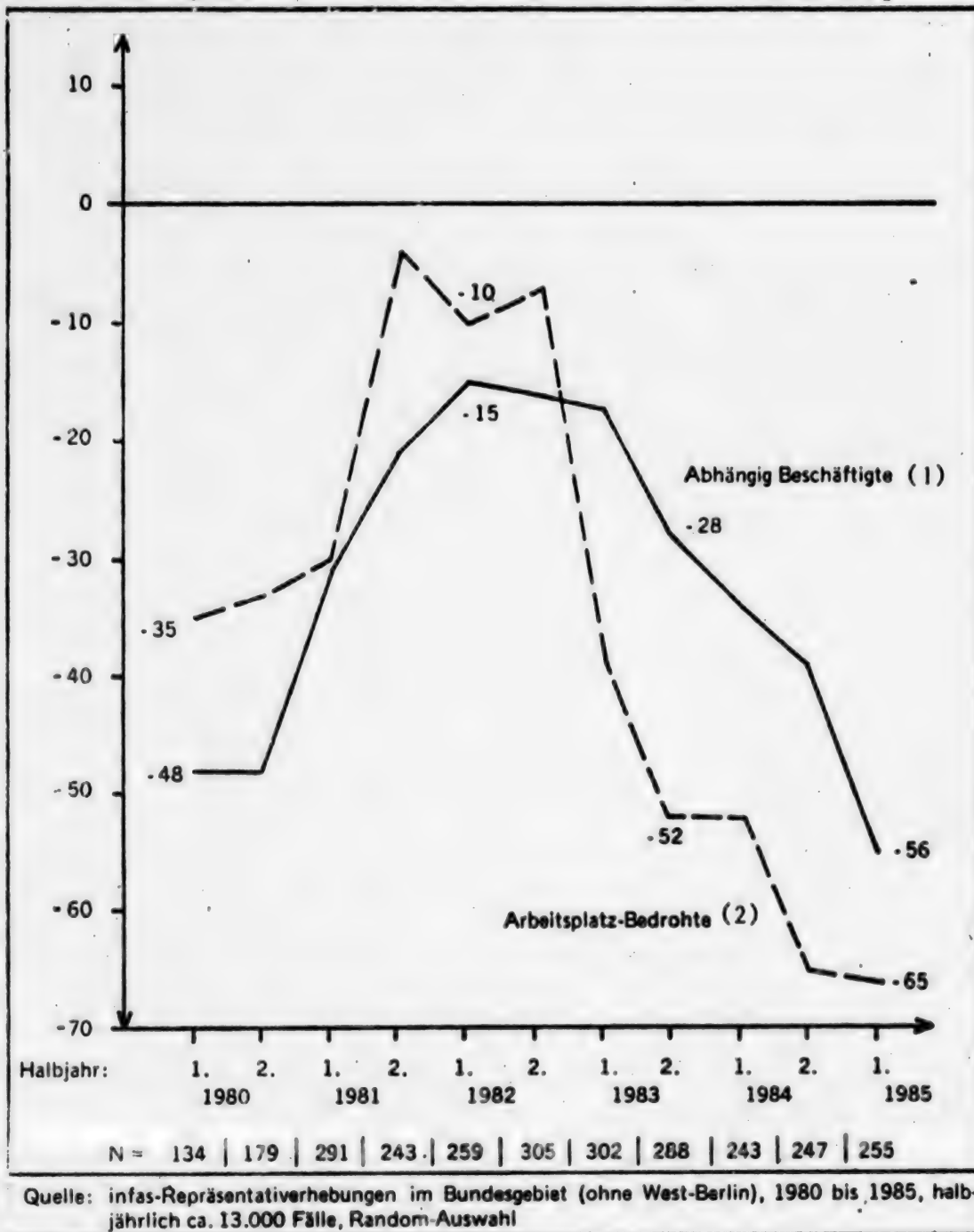
Table 4. Party Preferences Among Endangered Jobholders 1975-1979.

	1. Hj. 1975	2. Hj. 1975	1. Hj. 1976	2. Hj. 1976	1. Hj. 1977	2. Hj. 1977	1. Hj. 1978	2. Hj. 1978	1. Hj. 1979	2. Hj. 1979
CDU/CSU	41	43	37	53	48	39	40	40	31	37
SPD	36	35	38	30	32	42	41	41	47	37
FDP	5	6	9	6	5	5	5	2	4	4
(1) Andere	3	3	3	2	2	2	3	5	1	6
(2) Keine Angabe	15	13	13	9	13	12	11	12	17	16
(3) N =	466	551	401	335	509	526	459	313	276	327

Key:

1. Other
2. No response
3. Number of respondents

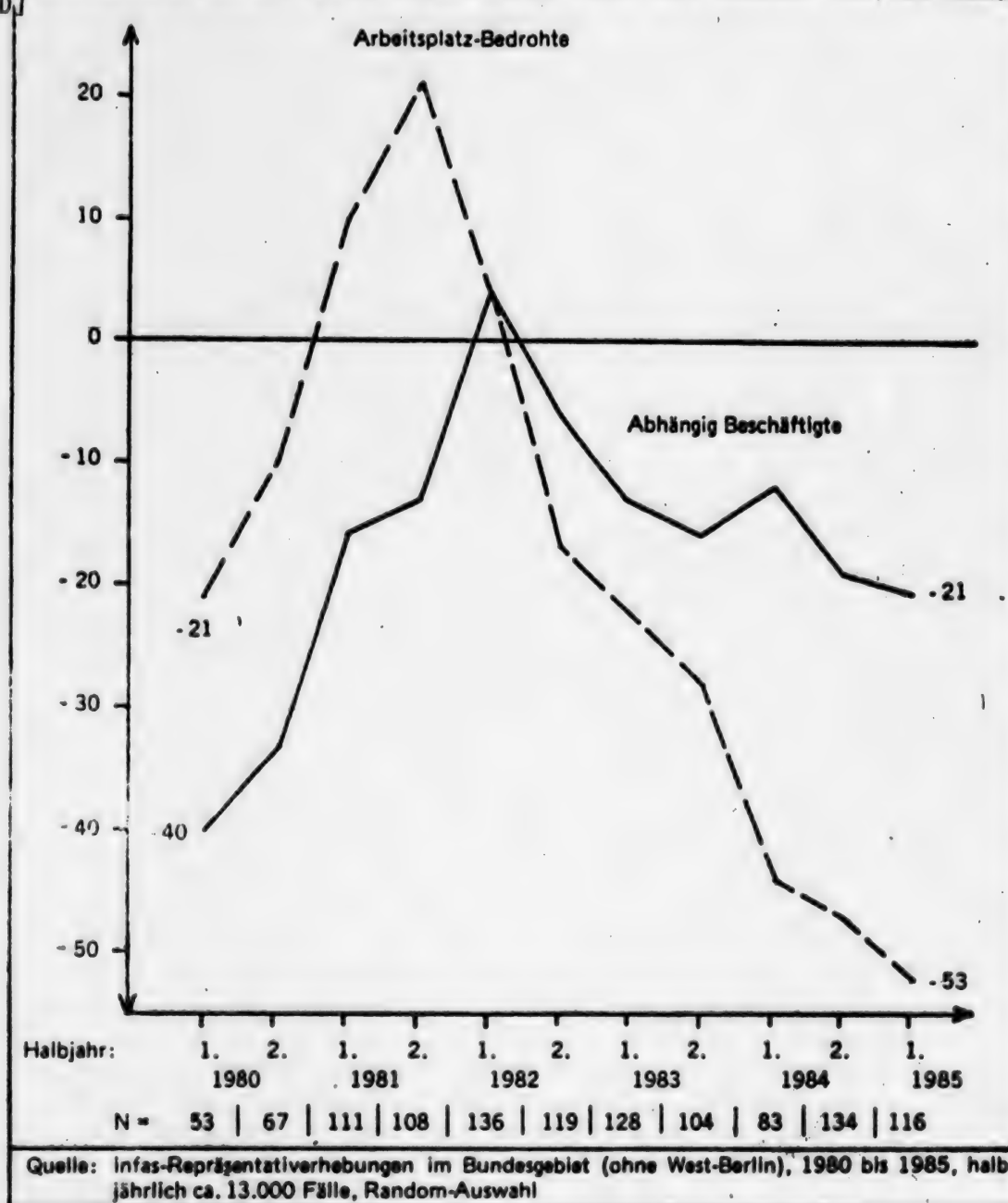
Blue-Collar Party Preferences 1980-1985 [Index: CDU/CSU Minus SPD]



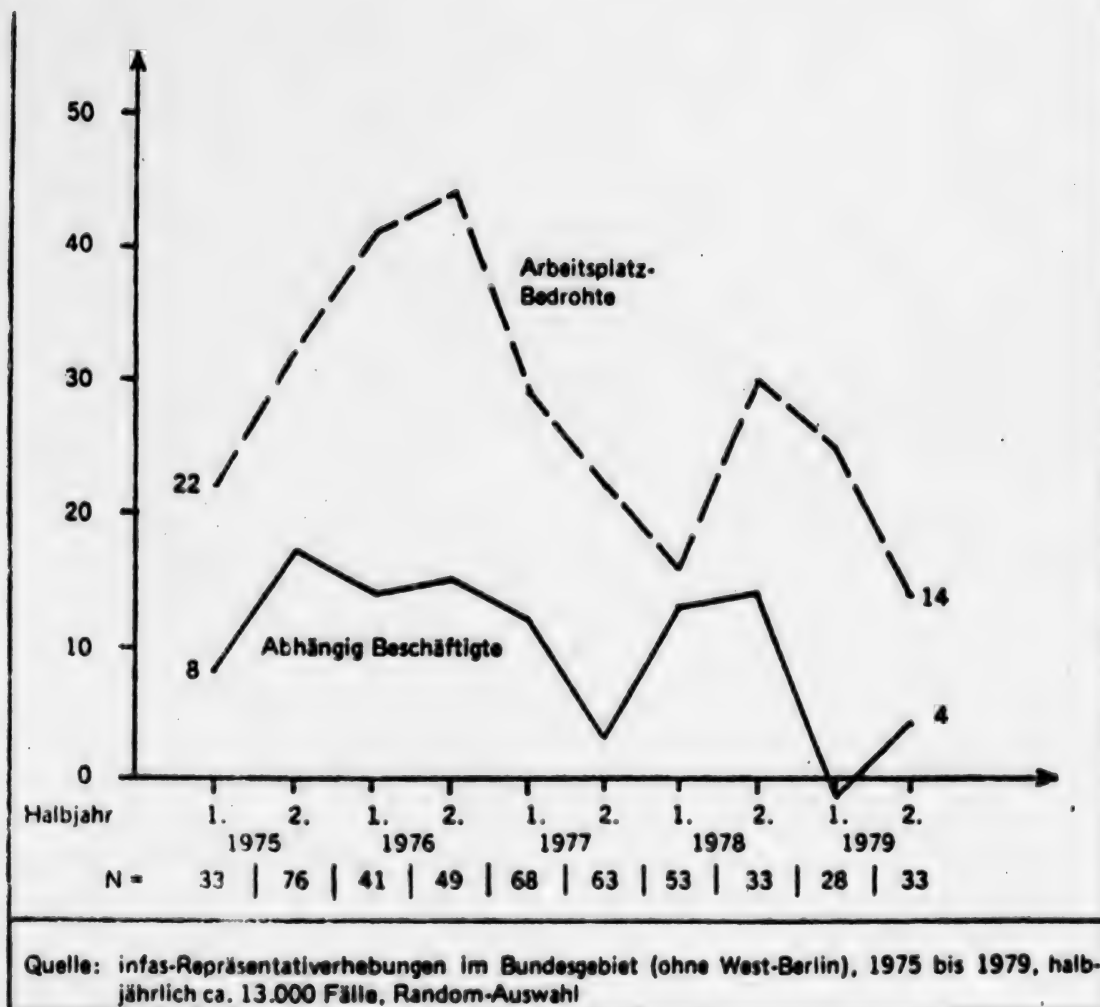
Key:

1. Total jobholders
2. Endangered jobholders
3. Source: infas semiannual random sample of ca. 13,000, FRG-wide (excluding West Berlin) 1980-1985.

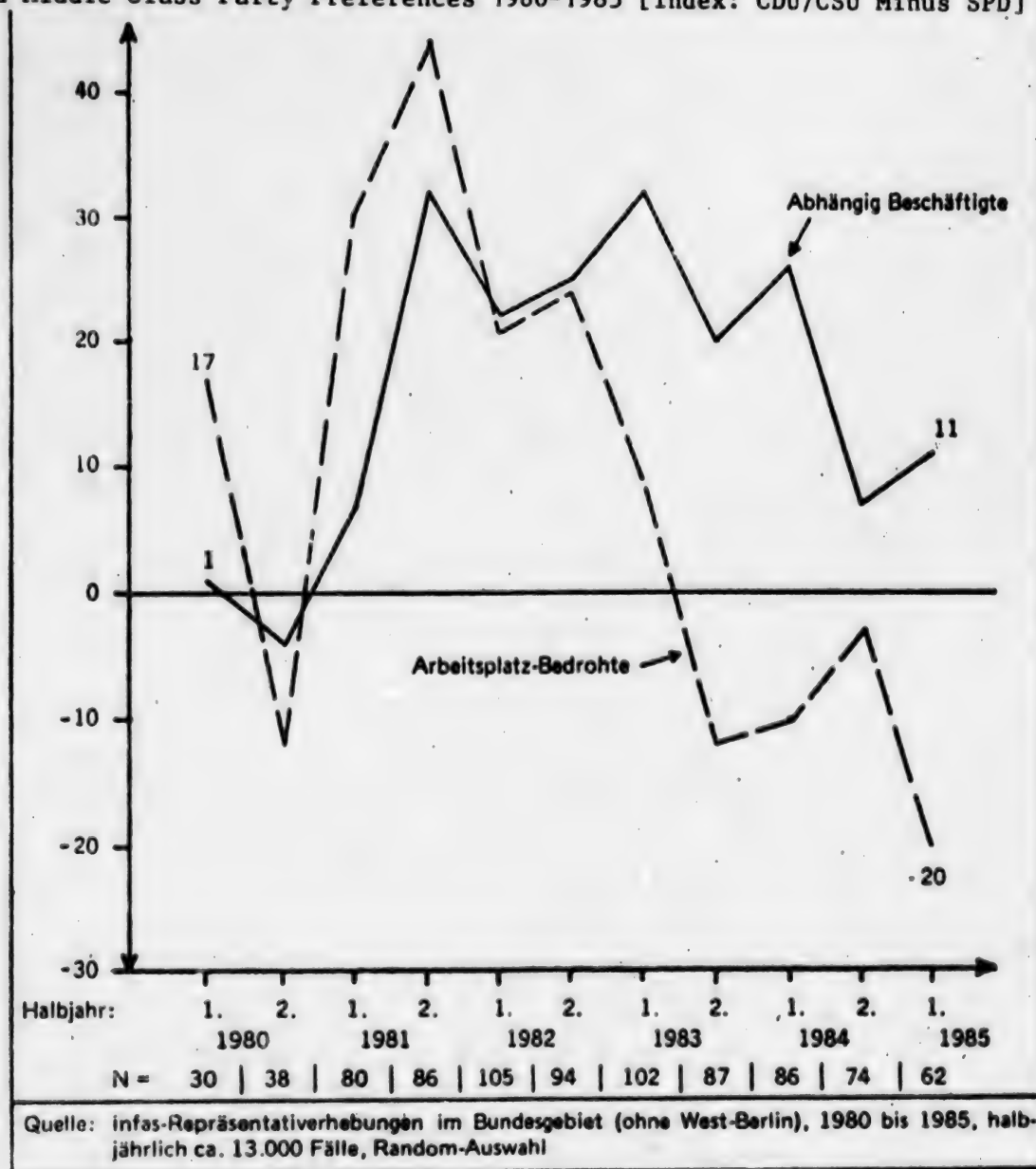
Unionized White-Collar Party Preferences 1980-1985 [Index: CDU/CSU Minus SPD]



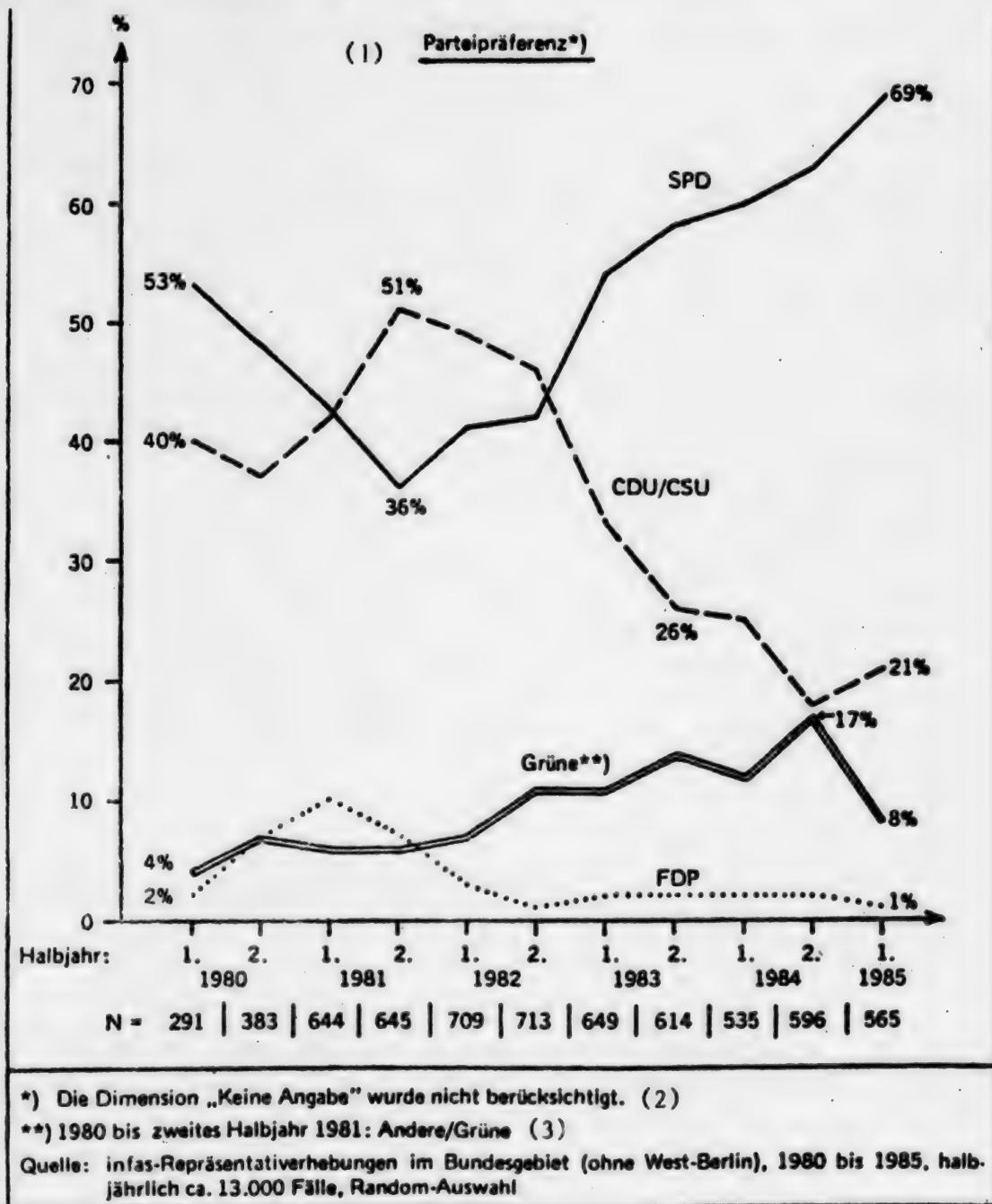
Old Middle Class Party Preferences 1975-1979 [Index: CDU/CSU Minus SPD]



Old Middle Class Party Preferences 1980-1985 [Index: CDU/CSU Minus SPD]



Voter Attitudes Among Endangered Jobholders 1980-1985



Key:

1. Party preference
2. "No response" category was not counted.
3. For 1980 up to second half of 1981, other=Greens.

9478

CSO: 3620/717

POLITICAL

ICELAND

SOCIAL DEMOCRATIC PARTY IN DISARRAY FOLLOWING 'PURGES'

Chairman Hannibalsson Losing Strength

Reykjavik MANNLIF in Icelandic Mar 86 pp 36-41

[Article by Helgi Mar Arthursson: "Hopes of a Large, Visionary Social Democratic Party Fail: The Social Democratic Party—Centralized and Small"]

[Text] When Jon Baldvin Hannibalsson took the chairman's seat away from Kjartan Johansson in the fall of 1984, it was a relatively peaceful action. Party members have not justified many things with as much conviction as this change in the party leadership. There was great and general desire to have Kjartan Johansson leave the chairman's seat. The party support kept decreasing under his leadership. He was not very effective in conflicts within the party. He did not succeed in organizing the party operation as required. Publication affairs went amiss during his chairmanship; also, he was considered a poor spokesman. He let the opportunities to improve the poor position of the Social Democratic Party slip by. Efforts to implement change fizzled away.

CAPTION 1:

Those Social Democrats who then expected that the new chairman would succeed in making a large and visionary Social Democratic Party must face that such initiative does not originate with the Social Democratic Party.

CAPTION 2:

Kjartan Johansson—the voices of those who claimed that the party's problems were more complicated than the problems surrounding Johansson, were silenced by hurrahs.

CAPTION 3:

Vilmundur Gylfason—"A political party must be large. It must not want to be small."

CAPTION 4:

Johanna Sigurdardottir, deputy chairman—knew her time limit; one of the Social Democratic Party parliamentarians.

CAPTION 5:

Arni Gunnarsson—ALTHYDYBLADID was not closed down, Gunnarsson was.

CAPTION 6:

Bjarni P. Magnusson--first Jon Baldvin Hannibalsson removed him from the Landsbankinn [National Bank] Council and then negotiated with him to run in the city council primaries against Sigurdur E. Gudmundsson.

CAPTION 7:

Sigurdur E. Gudmundsson—a representative from the "old party" got the ax.

CAPTION 8-9:

They were kicked out into the cold: Haukur Helgason (8) Kristin Gudmundsdottir (9).

CAPTION 10-11:

They were called in for help: Birgir Dyrfjord (10) Amundi Amundason (11)

CAPTION 12:

Social Democratic Party Congress 1984. The party had become a party without any direction but after the election of the chairman, relief characterized the congress.

Contrary to what many people assumed, the party chairman has been able to implement the changes in the party system which he set out to do.

Another reason that there is peace around Jon Baldvin Hannibalsson is that the parliamentary group is weak in the sense there are no strong individuals within the group that threaten the chairman's position.

There are many indications that the party chairman is increasingly leaning toward the convenience of centralization and that the party is seriously departing from open primaries to adopt closed primaries. If that happens, a remarkable era in the history of the Social Democratic Party comes to an end.

With the party's declarations to the government, the party will not become the alternative in politics which it was felt to be when the national congress party policy was young.

At this time, the party was a party without direction which people of political interest considered finished, unless some radical changes in the party leadership and its everyday policy would come about. Some people could foresee that if the party's hike in the desert under the leadership of Kjartan Olafsson continued, it might even lead to an even worse outcome in the elections than the party chairman, Gylfi Th. Gislason, suffered 10 years ago.

The most loyal party members literally vibrated every time they heard the party mentioned. The question was not whether Kjartan Johannsson should leave. People asked: "Who has the courage to run against the chairman?" Several names were mentioned. Johanna Sigurdardottir, Eidur Gudnason, Sighvatur Bjorgvinsson and Jon Baldvin Hannibalsson. Jon Baldvin dared. And he was elected chairman.

There was great joy at the party congress. Congratulations were received by the party and its chairman.. Joy and above all relief characterized what was left of the party congress. The voices that claimed that the problems of the Social Democratic Party were more complicated than the problems surrounding Kjartan Johannsson, were lost in the hurrahs.

The Election Was About Policy

The election was about policy or emphasis in the 1984 party congress. Anyway, that was the interpretation of the new chairman, Jon Baldvin Hannibalsson. The party members wanted a new policy—a new style. And Jon Baldvin promised that. He promised a large Social Democratic Party and the people believed that he would succeed in his quest. The people looked at an intelligent and handsome leader who announced changes in the Social Democratic Party policy and who was prepared to fight for victory.

The election platform that Jon Baldvin brought with him to the chairmanship was called "Who Owns Iceland? A small class of capitalists or the working class?" This is a bold description of the Icelandic society dealing with "two nations--two economic systems;" increased income tax on magnates; fight against tax fraud and so on in the same vein, among other things. The government was condemned in the policy statement for "extensively transferring capital from the wage earners to companies and capitalists." And all this sounds nice to the wage earners.

At the party congress, people generally agreed that the party was in shambles. With the election of a new party chairman and the confirmation of a radical party policy it was, however, brightness ahead. People seemed to have forgotten Vilmundur Gylfason's criticism of the party.

A great part of Gylfason's criticism was of only a few people within the party holding the power and the party's centralized organization. He criticized the party for being closed, undemocratic and small in all thinking. "The party associations are small; the party congress is attended by too few people; the party management does not have enough power and endurance behind it," said Vilmundur Gylfason in a speech at the 1980 party congress. And he added: "It is the nature of the matter that a political party must trust the people. A political party must want to be large. It must not want to be small."

Gylfason said this during debates about the Social Democratic Party's organization. His opinion was that the organization of the party was such that it prevented the party from becoming the mass movement it called for. But these words apply to more than that. As well as talking about organization, Gylfason was also taking about thinking—extensive thinking and stateliness. His hopes were always that within the social democratic movement, the thinking of the party functionary would yield to a greater and statelier thinking. That was the basis for open primaries prevailing within the Social Democratic Party. But he did not have his wish fulfilled. The criticism that was stated in 1980 applied to 1984. All the characteristics of the small centralized political party characterized the Social Democratic Party Congress.

However, the people wanted change—and there was change. The people wanted a radical party policy program—and got it. The people wanted a handsome leader—and got him. Now it was just wait and see.

Purges Within the Social Democratic Party

Shortly after he came to power, Jon Baldvin began to weed out the people in the party system who were not his declared supporters. Haukur Helgason was removed as the party congress functionary and replaced by a close associate of Jon Baldvin, Birgir Dyrfjörd. Kristin Gudmundsdottir, the party managing director, who had supported Kjartan Johannsson in the chairmanship battle against Jon Baldvin, was also let go. A portion of her job was given to Amundi Amundason, although a new managing director has not yet been hired. There were plans to make drastic changes in the party's publishing affairs. It was planned to abolish the ALTHYDUBLADID [party organ] and establish a special party publishing center. These plans never materialized. The ALTHYDYBLADID is still being published and its editor is Arni Gunnarsson.

When the opportunity arose, some of the Social Democratic Party representatives on the banking council were exchanged, according to the demands of Jon Baldvin. These was considered to be political measures. One of the representatives who was pulled out of the banking council was Bjarni P. Magnusson who now is number one on the Social Democratic list in the city council elections.

In short, all proposals made by the new chairman were well received. The party board of directors and party management granted the chairman an extensive proxy to make the changes in the operation of the Social Democratic Party he proposed. Contrary to what many people thought, the party chairman has achieved the changes in the party system that he set out to make.

Meetings—Increased Support

Soon after Jon Baldvin was elected chairman of the Social Democratic Party, he began an extensive and well organized crusade of meetings. In this way, he succeeded in calling great attention to himself. The meetings were considered on the aggressive side and there was no hesitation to be found among the people; they attended. The topic was the political platform that was mentioned before "WHO OWNS ICELAND?" The support for the party rose rapidly

in the polls and was almost to the point it was in the 1978 elections when the Social Democratic Party won its fabulous election victory. Without a doubt, the harsh criticism of the government of Steingrímur Hermannsson [Progressive Party] which comes forth in the party policy statement of the national congress was a deciding factor in how greatly and well the Social Democratic Party was received in the polls at this time, and that is the only way to explain the well attended meetings.

With the meeting crusade and the increased support in the polls, Jon Baldvin gained strength within the party. Soon after the support for the Social Democratic Party began to increase under the leadership of the new chairman, it was as if a tacit agreement had been made within the Social Democratic Party to give the party chairman a chance until after the next elections. And the chairman has enjoyed peace within the party.

Another reason that there is peace around Jon Baldvin is that the parliamentary group is weak in the sense that there are no strong individuals in the group who threaten the position of the chairman. There are no "factions" or opposition groups within the party that have posed themselves against the party leadership as is known to happen in other parties.

No Internal Work

Internal work in the Social Democratic Party is very limited. The organization of the party anticipates both traditional centralized party work and political work because of primaries. This is in fact two different things. The traditional party work consists of the party machine, executive committee and party council. The political work that is done before primaries is based on special campaign groups of the individual candidates and has very few things in common with the party machine. It is especially around the primaries that work comes to life on behalf of individual party candidates. Then the strong party work comes to light.

At the time when the party took the big step of introducing open primaries, there was a social revolution within the party. Now it was no longer the party associations or party aligned members who were to elect individuals for the party's list of candidates but an undefined number of voters who, per se, did not have any obligations toward the party or the party policy. This automatically led to the fact that party representatives in the local governments and in the Althing increasingly began to consider this undefined number of voters, and they felt that they had even less obligations to the party and the election platform, or policy platforms in general. The idea behind the open primaries is therefore a step in the direction away from centralized organization of social democracy and must clash with traditional party work and the organization which the Social Democratic Party otherwise goes by. In its most detailed form, the open primaries must depart from the party over to loosely attached associations of individuals who lean toward the same basic views and stick together, although they may perhaps be in disagreement about the implementation of the policy.

It is therefore nothing unnatural that centralized party work within the Social Democratic Party is at minimum. Open primaries presuppose powerful work from the people who run on the party list and who are its representatives in local government and in the Althing. This is a different type of party work--more open, more distribution of power is demonstrated in that kind of party work--independent of the party leadership.

Closed Primaries?

The power struggle within the Social Democratic Party will begin in all seriousness when the parliamentary elections come up. The first battle will be about whether the primaries are to be open or not. At the 1984 party congress, the change was made in the Social Democratic Party primary regulations that party associations, or electoral district councils, can decide themselves whether they call for open or closed primaries. And within the party there have always been those who have preferred closed primaries in the old style. They felt that it was more secure. And even if the party chairman has for a while sought his power support outside the party, there are many indications that he is now increasingly leaning toward the convenience of centralization and the party is seriously departing from open primaries to adopt closed primaries. If that happens, a remarkable era in the history of the Social Democratic Party will come to an end. An era that yielded 14 parliamentarians in the summer of 1978.

Decreasing Support--Changed Policy?

"The government is rapidly losing the confidence of its earlier supporters. The one who initiates causes a lot. By idly looking at constant increase of unequal rights and the disparity in treatment of social groups, the government gathered executioners for its own demise. Disappointment and anger of the people was manifested in tough and costly strikes. Strikes are the ultimate measure the people can resort to against a government that is hard of understanding. The general solidarity in the wage dispute of government workers proves that the government's policy violates the people's sense of justice." This chapter is to be found in the Social Democratic Party policy statement about ways to balance the division of property and income and promote social justice. This is a part of the message which the Social Democratic Party chairman delivered during his successful crusade around the country. This categorical position with the people against the authorities yielded increased support.

There has been some change in the emphasis in the Social Democratic Party policy. The position to the government of Steingrímur Hermannsson has changed. For example, the Social Democratic Party supported the measures in economic and wage affairs that were quickly passed through both Houses of Althing recently. To boot, these measures were even described as the policy of the Social Democratic Party in the party organ. Indeed, the same applies also to the People's Alliance but that is another story altogether.

The reason for the support of the Social Democratic Party for the policy of the government of Steingrímur Hermannsson in economic and wage affairs at this time--a little over a year after a policy statement that goes directly against

everything that this government represents was approved at a Social Democratic Party National Congress—is that the Social Democratic Party labor leadership was behind the creation of the demands against the government in cohort with the labor faction of the People's Alliance and the Independence Party. Although it is very easy to get people for the candidate list of the Social Democratic Party for the local elections, this position of the party to the government will without a doubt affect the outcome of the elections. With its reaction to the government, the party will not be the political alternative as it was felt to be while the policy statement from the party congress was fresh.

In any case, it is tempting to conclude that in the same way that the radical rhetoric pursued by the Social Democratic Party in the wake of the party congress increased its support in the polls, then repeated support for the government would decrease the party's popularity. The party support for the government's measures is far from being an isolated incident. To everybody's surprise, the Social Democratic Party supported the legislation of the government parties in the Althing—on the international women's day—when they forbid stewardesses to strike. One of the parliamentarians knew her time limit—Johanna Sigurdardottir.

The categorical position of the Social Democratic Party against the government has changed. Instead of condemning the government for poor performance in governing the country and robbing wage earners of their wages, the Social Democratic Party now supports the government on important issues. Perhaps the radical national congress policy statement was an election trick—a way to call more attention to the party—in the same way that the performance at the meeting of the Nordic Council Congress was slightly more than one year ago.

Local Elections

In general, it is easier now than often before to get people on the Social Democratic Party list in the provinces. Primaries have been held in many places around the country and the attendance has in general been good, except for Reykjavik. It is difficult to predict the outcome, but the outcome is, among other things, dependent upon how the parliamentary group will fare during the rest of the session and how the election campaign in Reykjavik will fare.

The party's city council member lost in open primaries recently. Jon Baldvin made an agreement with Bjarni P. Magnusson, former chairman of the Social Democratic Party Executive Council, that he would be a candidate against Sigurdur E. Gudmundsson. The reason was said to be that the chairman feared a collapse of support in the city council group if Sigurdur E. Gudmundsson was number one on the list.

By turning against Sigurdur E. Gudmundsson, the chairman has launched a fight against the "old party." But it is quite likely that this will have serious consequences, even if it does not show up until later. The deciding factor whether Jon Baldvin will have to pay for having ousted Sigurdur E. Gudmundsson, will be by whether he will be successful in gaining the support

of increased numbers of people in Reykjavik and thereby bypass the "old party" when the primaries for the parliamentary elections begin.

National Compromise and Centralization

Tendencies within the Social Democratic Party to close the primaries indicate that the party is departing from the attempt of more open working methods which was made during the time when the influence of Vilmundur Gylfason prevailed within the party, i.e. that the party is on its way from open democratic organization toward centralization. The remarks of the chairman on television recently indicate that he especially prefers the cooperation of those people within other parties, for example the People's Alliance, who have fought hardest against the liberalization within that party. This refers to the statements of Jon Baldvin in which he expressed particular approval on the labor wing of the People's Alliance--daily referred to as the "People's Alliance Grensasdeild" [Grensasdeild Rehabilitation Center]. In the same interview the Social Democratic Party chairman spoke derisively about the so-called democratic generation within the same party. This position clashes with the ideas of open democratic--and large--social democratic party.

These statements made by the Social Democratic Party chairman brings one to think about conceivable Social Democratic Party partners after the elections. These statements categorically indicate that the chairman--and thereby the party--lean towards some type of variation of the model which leaders of labor movement, employers and government parties created during the reconstruction years in order to solve economic affairs and wage affairs. The position to newly made wage agreements and the government's economic measures indicate still further that the Social Democratic Party chairman is on the "national compromise line" as the national compromise is based on several men in the leadership of the aforementioned three parties coming together and solving the problem peacefully.

Ideas of this kind are well liked in the state interference arm of the Independence Party and the Social Democratic Party leadership, and it is therefore more than likely that the Social Democratic Party will enter into cooperation with these parties in a conceivable government. It then depends on the outcome of the election whether the Social Democratic Party will be alone with the Independence Party or in cohort with the People's Alliance.

Those who expected, or hoped, that Jon Baldvin would apply himself in the favor of the democratic powers in society--which he has all capabilities of doing--have been disappointed with the development within the Social Democratic Party. And those who are on the left wing of politics and realized that in Jon Baldvin there was a leader in the Social Democratic Party who had daring and weight to seriously tackle joint issues of associations left of center in politics, are now without any hope that this will be the lot of the new chairman. And social democrats who believed in the big dream, the visionary party with division of power must face that the initiative to such associations does not come from the Social Democratic Party. The key is a stately, democratic thinking--to the left. The Social Democratic Party may get stronger by sticking with the pattern of a small party but it will not become large. It will be centralized and small.

2 July 1986

Columnist Comments on Article

Reykjavik MORGUNBLADID in Icelandic 26 Mar 86 p 9

[Commentary by 'Staksteinar': "Hopes of a Large, Visionary Social Democratic Party Fail: The Social Democratic Party—Centralized and Small"]

[Text] "Centralized and Small"

Helgi Mar Arthursson discusses the Social Democratic Party in the political section of the MANNLIF magazine. The content of the article, which Staksteinar will discuss briefly today, is this: "Hopes of a Large, Visionary Social Democratic Party Fail." He discusses intended "purges within the Social Democratic Party" which "are now increasingly leaning toward the convenience of centralization." "The Social Democratic Party may get stronger by sticking with the pattern of a small party but it will not become large. It will be centralized and small," says Helgi Mar Arthursson.

Boiling Underneath?

Helgi Mar Arthursson's article in MANNLIF is, to a certain extent anyway, an attack on Jon Baldvin Hannibalsson, chairman of the Social Democratic Party. It demonstrates some undercurrent within the Social Democratic Party and perhaps shows that the chairman is not sailing in as still waters as some people believed. On the other hand, Jon Baldvin Hannibalsson has succeeded in weathering heavier seas than the one that the article by Helgi Mar Arthursson causes in the ocean of Icelandic politics.

The new chairman of the Social Democratic Party has brought the party up from the trough the party was in before. It is, however, quite some art to stay on course after you are out of the trough. And the Social Democratic Party has at a much higher rate than the norm succeeded in undermining their leaders. Helgi Mar Arthursson's article proves that effort, but it is one thing to want and another to be able to handle the implementation.

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POLITICAL

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POLL SHOWS SUPPORT FOR GOVERNMENT HIGHEST IN TWO YEARS

Reykjavik MORGUNBLADID in Icelandic 25 Mar 86 p 4

[Article: "Hagvangur Poll After the Wage Agreements: 63.7 Percent Support the Government"]

[Text] The Support is Greater Than the Total Support for the Political Parties

According to Hagvangur public opinion polls at the beginning of this month, support for the government has increased considerably from the last Hagvangur poll which was conducted in December last year. If only those who took a position are counted, 63.7 percent of the voters now support the government and 36.3 percent do not support it. In December 1985, 49.7 percent supported the government and 36.3 percent did not support it.

The survey was conducted during the period of March 3-11 and the sample consisted of 1,000 persons, 18-years-old and older, nationwide. The question was: "Do you or do you not support the current government?" The question was answered by 785 persons of which 659 took a position, or 84 percent. A total of 11.7 percent of the people polled refused to answer and 4.3 percent were undecided.

The government has not received as much support as now in the Hagvangur polls since July 1984. Then 68.6 percent said they supported the government and 31.4 percent did not support it. The support for the government is now greater than the total support for the two political parties in the same poll, as was reported here in the paper on Saturday, and also greater support than their support in the last elections. In the poll their total support was 54.5 percent (the Progressive Party 15.7 percent and the Independence Party 38.8 percent) and in the 1983 elections they received 57.2 percent (the Progressive Party 18.5 percent and the Independence Party 38.7 percent).

PARTY SUPPORT IN POLLS AND ELECTIONS 1985

	Mar 86	Dec 84	Jun/ Jul 85	May 85	Feb 85	Sep/ Oct 84	July 84	Apr 84	Election Results
People's Alliance	18.6	14.6	12.0	12.2	10.8	16.1	14.9	9.3	17.3
Social Democratic Party	11.9	16.2	16.0	21.3	20.5	7.0	6.4	6.8	11.7
Social Democratic Alliance	5.3	4.3	7.7	5.4	6.0	6.2	6.2	3.7	7.3
Progressive Party	15.7	13.0	11.0	11.9	9.9	14.6	14.7	17.1	18.5
Women's List	8.9	8.9	9.1	7.4	11.2	8.9	8.1	9.2	5.5
Independence Party	38.8	42.1	43.6	41.2	40.4	45.7	48.8	52.1	38.7
Humanist Party	0.8	1.0	0.6	0.6	1.2	1.5	0.9	1.8	1.0

GOVERNMENT SUPPORT IN HAGVANGUR POLLS

	Mar 86	Nov/ Dec 85	Jun/ Jul 85	May 85	Feb 85	Sep/ Oct 94	Jul 84	Apr 84
Support	63.7	49.7	57.4	52.5	50.2	54.1	68.6	77.2
Do Not Support	36.3	59.3	42.6	47.5	49.8	45.9	31.4	22.8

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PAPER VIEWS PEOPLE'S ALLIANCE PROBLEMS IN WAKE OF POLL RESULTS

Reykjavik MORGUNBLADID in Icelandic 25 Mar 86 p 32

[Editorial: "Which People's Alliance?"]

[Text] The People's Alliance is gaining, according to the poll conducted by Hagvangur and was published in MORGUNBLADID Saturday and Sunday. The same applies both nationwide and in Reykjavik that there are more people than before who support the People's Alliance. The voters' opinion on the political parties was asked during the week March 3-11. During those particular days, it was becoming clear that within the People's Alliance people are divided into two factions, if not more, in their position to the new wage agreements. On the one side are those who rule the THJODVILJINN and area opposed to the agreements and on the other side are, however, those who rule the labor movement and are in favor of the agreements. Which group do the people support when they say they support the People's Alliance in the next elections?

Throstur Olafsson, managing director of Dagsbrun [Reykjavik General and Transport Workers Union] who must be considered the ideological architect within the labor wing of the People's Alliance, has once again stated that his opinion is that it would be best for the People's Alliance to aim at cooperation with the Independence Party. He had, however, not mentioned these views recently when this aforementioned poll was conducted. But would that have changed people's position if they had kept Olafsson's proposal in mind? Or do people agree with Svavar Gestsson, chairman of the People's Alliance, who said in THJODVILJINN on Saturday: "I think, however, that a government cooperation with the Independence Party as it is today is out of the question."?

This attitude of the People's Alliance is definitely food for thought. And it will be more difficult to arrive at a categorical conclusion about this attitude when looking at the increased support for the government in this poll. As comes forth here in the paper today, the support for the government now is greater than ever since July 1984 in the Hagvangur polls.

There is reason to look closer at one particular factor and that is that women are in increasing numbers supporting the People's Alliance, and this is especially obvious when the question is about support in the parliamentary

elections. Independence Party leaders must study this especially and seriously reflect on what is happening or brewing here. Political parties must utilize clear indications of this kind to look inwards and investigate whether something went amiss. For a party that emphasizes the role of the individual in the society and that in a joint effort the classes can move mountains, it is of extreme concern, if it is correct, that women decide to turn their backs on the party in such a way that the poll showed.

Over and again the question is: Which People's Alliance is it that the people want to support? We have examples from political struggles of years past that it does not have to be bad for the parties in the polls between elections that there is infighting going on. The parties get in the limelight and people tend to remember them more vividly as a result. Is it internal conflict and disputes that presently call attention to the People's Alliance? If that is the fact, it is imperative for the party leadership to quench these disputes well in time before the elections; split parties rarely or never gain any credibility in the election campaign.

The newly conducted opinion poll indicates that the political division line between the Independence Party and the People's Alliance is sharpening. The role of the women in that is a matter to think about. Of greatest importance, however, is to find out which wing of the People's Alliance is in charge: the one that wants an even sharper political division line, or the other which supports the wage agreements and recommends cooperation with the Independence Party.

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DEBATE CONTINUES ON NEED FOR IMPROVING INTERNAL SECURITY

Reykjavik HELGARPOSTURINN in Icelandic 27 Mar 86 pp 7-8

[Article by G. Petur Matthiasson: "Icelandic Secret Service"]

[Text] Police Commissioner Bodvar Bragason Confirms That So-Called Internal Security in Iceland Has Been Conducted for Decades. The Office of the Police Commissioner and the Immigration Office Have Employees Gathering Information to Ensure the Security of the Nation

"Internal Security Affairs" Monitored Since 1950. Various Tasks and Great Results

Matthias A. Mathiesen [foreign minister] did not want to say much about the matter when HELGARPOSTURINN contacted him other than what had come forth in an interview with him in MORGUNBLADID. He emphasized that work had to be done in this area and he had therefore proposed that a committee be appointed. He said that there was not much to say about the matter as it is still in the discussion stages.

The minister found nothing unusual about the fact that the issue came up at a Vardberg meeting before it was discussed in the Althing; he said it was common that people discuss matters that are of interest to them elsewhere than in the Althing before they are introduced.

Despite the fact that the debate begins in the Foreign Ministry, these matters belong to the Ministry of Justice, according to Police Commissioner Bodvar Bragason, and that ministry has handled these affairs in the past decades along with the Immigration Office. The police commissioner said that it had been the policy of the government not to discuss these matters publicly, but now when people are discussing these matters without realizing that "internal security" is being monitored and has been monitored, it is has become unavoidable to disclose that.

"This operation has been going on in the country for decades," said Bodvar Bragason, police commissioner. "The Immigration Office is under my jurisdiction, according to law from 1965, and the surveillance is an old phenomenon and has been going on for years. Perhaps due to the fact that the Immigration Office has been part of this Office, it might have been considered

more convenient that the Office of the Police Commissioner would handle what is called "internal security" or something else. This arrangement has been in effect since 1950. For obvious reasons I am unable to disclose in what form this has been enforced in the past, nor can I disclose in what form it is today. But I can simply say that this issue is being taken care of. Of course this is being monitored by the proper authorities which is the Ministry of Justice. It is therefore a great misunderstanding when people think that these matters have been neglected and no attention has been given to them. But it was also a government decision that these matters should be handled quietly and that has been done at all times. That may be the reason why so many people are taken by surprise to find out that this activity exists in the country.

As other people have opened this debate, I see no other way than to at least answer whether this service exists or not; and as I have said, this service has been in operation since 1950. These matters have been taken care of and various tasks and problems have arisen through the years and great results have been achieved in many areas, although it is not possible to elaborate on that further, the police commissioner concluded.

From the commissioner's statements it can be understood that the current debate is wrong on two counts. Firstly, that this applies to internal affairs much more than to foreign affairs. Secondly, these matters have been and will continue to be taken care of. Therefore the debate is not necessary and might even endanger the nation's "internal security."

CAPTION I: Police Commissioner Bodvar Bragason: "Internal security affairs have been taken care of and will continue to be taken care of."

Recently, the so-called "internal security affairs" have been much discussed, and the reason for that is that in the government, Foreign Minister Matthias A. Mathiesen submitted a proposal for a resolution concerning the "internal security of the nation." This applies to countermeasures against terrorist activities conducted by extremists and what is illegal information activities which is called spying in Icelandic.

The foreign minister says that the "time has come to especially strengthen the measures against any type of activities which have the objective of undermining the country's security from the inside," or that is how he is quoted in MORGUNGBLADID. The foreign minister proposes that a special department be established within the Police Office to handle the implementation of these matters. Police Commissioner Bodvar Bragason says, however, that these matters have been taken care of by the police for decades and that this is not a new matter. In spite of that, it is inferred that no people have ever been under surveillance in this country. It therefore seems that the foreign minister did not check on this matter with his colleague, Minister of Justice Jon Helgason. The question is not whether there is a secret service operating in the country or not but how it is to be operated.

The Vardberg Meeting

A meeting was held about these matters, not in the Althing but at Hotel Saga sponsored by Vardberg and the Society For Western Cooperation. This has received considerable criticism because the internal security affairs of Iceland were discussed by the foreign minister; by Olafur Walter Stefansson of the Ministry of Justice; by Gudmundur Magnusson, reporter for MORGUNBLADID and members of parliament, Haraldur Olafsson (Progressive Party) and Eidur Gudnason (Social Democratic Party). Also attending the meeting were employees of the U.S. Embassy; employees of the embassies from the NATO member countries who are authorized to attend the meetings of these associations. When Haraldur Olafsson and Eidur Gudnason criticized their presence at the meeting, one of the U.S. Embassy employees responded by saying that they were attending the meeting in good faith as the guests of the parties holding the meeting, according to the news report in MORGUNBLADID about the meeting. Representatives from other media do not seem to have attended the meeting.

Query in Althing

As a result of this, Steingrímur J. Sigfússon, member of parliament for the People's Alliance (a representative of that party was not invited to the Vardberg meeting) has submitted a query to the foreign minister. Sigfússon asks whether a secret service is to be established; why such ideas are discussed at a Vardberg meeting before they are introduced in the Althing. He also asked the minister whether he thinks that it is natural to discuss these affairs in the presence of foreign embassy employees. It does not seem likely that the minister will respond to the query until after the Easter break for the parliamentarians. But according to what Foreign Minister Mathiesen says in a conversation with HELGARPOSTURINN, he does not feel that it is unnatural that this matter was first discussed at a Vardberg meeting but refers to the Ministry of Justice regarding the question whether a secret service should be established in the country. He did not want to explain what he meant by saying "illegal information activities" which he said was obvious.

Concerned Leftists

Those who are most concerned about this issue are leftist people who in daily speech are called "commies." It is probable that within this group it might be conceivable to find Icelandic "Treholts" but leftists are not unused to being under surveillance, according to HELGARPOSTURINN sources. They say, for example, that U.S. Embassy employees photograph and register people who participate in the Keflavik Protest Marches; also, rightist people at the University of Iceland supply information to the U.S. Embassy about leftists at the university, etc. Our sources think that it is likely that this information is forwarded to parties in this country. The cooperation of the NATO countries in these matters is a recognized fact. The purpose of the debate now seems therefore to be only to formally establish a secret service in Iceland.

Security Affairs of Iceland = Security Affairs of the United States

There are two things that arouse attention in connection with this debate now. Firstly, with the Vardberg meeting it is confirmed that the "internal security affairs" of Iceland are closely tied with the security of the United States, so closely tied to it that representatives of that country are invited to a meeting where employees of the Ministry of Justice and the foreign minister discuss these sensitive issues, as it seems without any concern about the presence of the representatives of the United States. The "Internal security affairs" of Iceland have therefore ceased to be the private affairs of Icelanders and are a joint "interest issue" shared by us and the Americans. This arouses numerous questions, for example, concerning our independence; concerning our relationship with the United States and other NATO countries and in particular our cooperation with the secret services of these countries.

The other thing that arouses attention is that the foreign minister does not seem to have full knowledge about what the situation of these matters is within the Ministry of Justice. Although he can, to a certain extent, say and indeed he does say that we must be more alert to terrorist activities, especially in the light of the murder of Olof Palme, the prime minister of Sweden, our sources feel that the minister's mind is more directed toward better surveillance of leftists in the country, i.e. conceivable "Treholts," which is implied by the words "illegal information activities." In this regard, many people feel that the minister is touching on bad matters and that this will test the democracy and freedom itself in the country.

This causes one to think about what was mentioned above, namely that the purpose of this debate is to establish an official secret service which would become either a special office within the Ministry of Justice or the Foreign Ministry. Although it is quite obvious that this evolves around internal affairs, it seems, however, that the foreign minister is getting a firm hold on the matter by initiating this debate. The argumentation for such an office, as the Icelandic Secret Service would be, becoming a part of the Foreign Ministry is probably the existence of the Defense Office in the ministry and the existence of the Icelandic Commission on Security and International Affairs which both belong to the Foreign Ministry.

Icelandic Secret Service

The conclusion of this matter is therefore that a secret service has been operating here in the country for decades. It has not been operating from a special office but secret service affairs have been conducted within the Immigration Office which is an office within the Police Department, or at least in cooperation with the Immigration Office. The Immigration Office has the special assignment to check on people and therefore knows how to do the job. During all those years, it has been the policy of the authorities not to say anything about these matters, i.e. neither to confirm or deny. Now it so happens, however, that the foreign minister starts playing around with these affairs on his own, and, as it seems, contrary to the wishes of the people who handle these matters today. Perhaps the purpose is, according to

one of our sources, that he wants his presence felt in the Foreign Ministry in the same way as Geir Hallgrímsson did. The result is that the debate about these matters has confirmed the suspicion of many people that there is and has been for years an inkling of a secret service in Iceland and the foreign minister deserves thanks for that. Icelandic secret service is a fact.

CAPTION II: Foreign Minister Matthias A. Mathiesen. With the debate about "internal security affairs," he has confirmed the existence of Icelandic secret service.

CAPTION III: This building houses both the police commissioner and the foreign minister, as well as those who work at "internal security affairs."

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POLITICAL

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FOREIGN MINISTER REPLIES TO ALTHING QUERIES ON SECURITY

Reykjavik MORGUNBLADID in Icelandic 2 Apr 86 p 36

[Article: "Internal Security Affairs: No Plans For Secret Service"]

[Text] Foreign Minister Matthias A. Mathiesen answered no to two queries from Steingrimur J. Sigfusson (People's Alliance member of parliament from Nordurland Eystra): 1) Is the Foreign Ministry planning to establish a secret service or a security service patterned after such services abroad? 2) What prompted the foreign minister to elaborate on such ideas at a Vardberg meeting before they are introduced to, for example, the Althing Foreign Relations Committee, the government or parliamentary groups? The minister said that he had not elaborated on such ideas at the Vardberg meeting.

The minister said that he had not attended the Vardberg meeting that was held about the nation's internal security affairs, among other things. Ideas about this matter, which people are thinking about, covered, among other things, preventative defense measures against potential terrorist acts that characterize the world today, even our closest environment, and illegal information activities. People are, of course, free to discuss such ideas as both freedom of associations and freedom of opinion prevail in the country.

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POLITICAL

ICELAND

FOREIGN MINISTER REPORTS TO ALTHING ON KEFLAVIK BASE ISSUE

Reykjavik MORGUNBLADID in Icelandic 2 Apr 86 p 36

[Article: "Iceland Defense Force Projects: Command Post at Keflavik Base"]

[Text] Foreign Minister Matthias A. Mathiesen said in a response to a query from Steingrímur J. Sigfússon (People's Alliance parliamentarian from Norðurland Eystra) that the construction of a new command post at the Keflavik Base, which will be 1,980 square meters in size, had been formally authorized in October 1985.

It came forth in the foreign minister's response that the Iceland Defense Force was authorized to begin work on the following projects in addition to the command post:

An oil storage facility in Helgúvík, a total of 15,000 cubic meters (third phase).

A radar station on the Gunnolfsvík Mountain at Bakkafjörður and a radar station on the Stígahlid Mountain by Bolungarvík. Road work for the radar station in the west began last October and in November in the east. It is hoped that construction work on the radar station buildings can begin this summer and will be concluded during the period 1987-1988. Each building will be about 1,150 square meters.

The first phase of the project involving an apron, roadways and an airport road for the new air terminal but an agreement was made for the separation of the operation of commercial aviation and the operation of the Defense Force in 1974.

Testing station for jet engines for the Defence Force's new fighter bombers.

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POLITICAL

ICELAND

FOREIGN EMBASSIES YET TO REPORT ON STAFFING QUERIES

Reykjavik MORGUNBLADID in Icelandic 9 Apr 86 p 32

[Article: "Foreign Embassies in Iceland: Have Yet to Answer Foreign Ministry's Query on Staff and Rental Housing"]

[Text] Foreign embassies in Reykjavik have yet to answer the Foreign Ministry's queries about their staff and their work functions, as well as about their rental housing and how it is utilized.

This information came forth in the Althing yesterday when Foreign Minister Matthias A. Mathiesen answered a query from Gunnar G. Schram (Independence Party parliamentarian for the Rangarvallasysla district) about the implementation of the Althing resolution from last year on the limitation of activities of foreign embassies in the country. The foreign minister said that there was no reason to assume that answers would not be forthcoming from the foreign embassies and he said that the Foreign Ministry would follow up on that.

The foreign minister said in addition to having prompted the queries to the embassies, the ministry had been instrumental in having the automobiles belonging to diplomats and embassies reregistered at the State Motor Vehicle Supervision Office in order to have their automobiles better identified than they currently are and that reregistration had just begun. The minister also said that study would continue on measures aimed at enforcing the Althing resolution.

It came forth in the queries posed by Gunnar Schram that he feels that the activities of some of the foreign embassies here in the country have exceeded the normal limit. He pointed out that it was within the power of the Icelandic authorities to set regulations that limit the number of foreign diplomats; the size of their sites here and the purchase of real estate.

Hjorleifur Guttormsson (People's Alliance parliamentarian for Austurland) said that he puts emphasis on mutual views in this matter. He pointed out in this connection the limitation posed on the travel of Icelandic diplomats in the Soviet Union and the stipulation that Icelandic tourists who want to visit the United States must obtain a special visa.

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POLITICAL

ICELAND

BRIEFS

ICELANDIC CONSUL IN GREENLAND—Foreign Minister Matthias A. Mathiesen said in the Althing yesterday that it was under study in his ministry to appoint an Icelandic honorary consul in Greenland, probably in Nuuk. Danish authorities are prepared to approve such an honorary consul; Greenland has a similar position within the Danish state as do the Faroe Islands. The above came forth in the minister's answer to a query from Gunnar G. Schram (Independent Party MP for Rangarvallasysla). Among those who spoke on this issue were Pall Petursson (Progressive Party MP for Nordurland Vestra) and Steingreimur J. Sigfusson (People's Alliance MP for Nordurland Eystra). They stressed that this issue was only a part of a larger issue in connection with our relations with our neighbors in Greenland which we ought to nurture with care. [Text] [Reykjavik MORGUNBLADID in Icelandic 2 Apr 86 p 36] 9583

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2 July 1986

POLITICAL

PORTUGAL

DOUBTS EXPRESSED ON LIBYANS' EXPULSION

Lisbon TEMPO in Portuguese 9 May 86 p 50

[Text] The Portuguese Government found itself compelled to expel five diplomatic officials of the People's Bureau (Embassy) of Libya in Lisbon to satisfy (pressures?) the European Economic Community (EEC) and the United States. The decision by Cavaco Silva's government could necessarily bring about retaliation by Libya, specifically the expulsion of Portuguese workers. Could the work underway by the Portuguese Ilidio Monteiro Company, which has maintained (excellent) relations with the Libyan authorities, run some risk?

Portugal is a small country naturally limited in its external projection and now more subject to conditions owing to its status as a member of the EEC.

Much as the Lisbon government may not have wanted to act, it would not make sense for it not to take a position in view of the decisions of the other EEC partners.

It remains to be seen, however, how the Portuguese Government is going to get now on the pressing accreditation, as secretary of the Libyan People's Bureau in Lisbon, of Nuri Mohamed Betelmal, who has been in the Portuguese capital since August 1985.

It is possible to pacify the tension because the measures taken are not decidedly against the Libyan Arab people or Libya themselves.

As regards Portuguese-Libyan relations, there surely will not be a major problem in granting accreditation to Nuri Mohamed Betelmal. His prompt accreditation could compensate for and defuse the now existing controversy with Portugal due to the expulsion of Libyan diplomatic officials.

The political relations between the two countries have not been outstanding in recent years, but everything indicated that with the arrival of Nuri Betelmal in Lisbon something could be repaired and improved. Nuri is a skilled and intelligent diplomat who has consistently known how to move about in the twists and turns of Portuguese political and business life.

Economic relations have been minimal, it is true, but Portuguese businessmen were hopeful of some good prospects.

Until now, the Ilidio Monteiro Company has benefited the most from its relationship with Libya. Recently, there had been talk (is there still talk?) of a forthcoming visit by a Portuguese businessmen's delegation to Libya to explore the Libyan market and try to implement trade relations and develop cooperation.

Calm Is Essential

In certain Arab political circles, there was talk a few weeks ago about Portugal's interest in purchasing Libyan oil at favorable prices. It is not rightly known if those reports will be confirmed.

Portugal adopted the latest measures only after (strong) European and American pressure. At least, that is what certain Portuguese political circles assert. Portugal did not concur in the first American proposal for an economic boycott against Libya and condemned Israel's diversion of a Libyan Arab Airlines plane to Israeli territory. The truth is that those two facts were praised by Libyan diplomats.

But Portugal had no other alternative but to follow the measures taken by the member countries of the EEC, including Spain itself.

Can the accreditation of Nuri Mohamed Betelmal save the situation now?

Will the Portuguese Government accredit Nuri?

And, finally, how will Libya react to the expulsion of its five diplomatic officials from Lisbon?

By expelling Portuguese workers and limiting the operation of Portuguese companies in Libya? By closing their People's Bureau (Embassy) in Lisbon?

Calm Is Essential on Both Sides

What could Portugal do?

Will it be correct if Libya expels Portuguese?

Are the measures taken by the member countries of the EEC correct?

The member countries of the EEC also finally gave in to Reagan's U.S. pressures. Portugal could not have, nor should it have, remained outside...

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CSO: 3542/104

POLITICAL

PORTUGAL

ANGOLAN SECRET SERVICES' ALLEGED INVOLVEMENT

Lisbon O DIABO in Portuguese 13 May 86 p 3

[Text] Portuguese authorities are investigating the possible involvement of the Angolan secret services (DISA) in a number of criminal acts that have occurred in Portugal since last December, specifically assaults and attempted murders perpetrated against citizens of that country residing among us who do not support Eduardo dos Santos' communist regime.

Suspicion falls on some "operational agents" of DISA and, from what we have ascertained, involves high-ranking officials of the Angolan Embassy in Lisbon whose only objective reportedly is to terrorize many of the Angolans who are living in Portugal who are opposed to Luanda's current policy.

At the same time, the eternal charges that "they were plotting" against the Angolan Government are said to be at the root of numerous "searches" without warrant recently made in the homes of Angolan citizens living among us, all of this without the authorization of the Portuguese authorities, who have investigated for about a month and have closed in on the activities of some officials of the embassy of the People's Republic of Angola.

From what O DIABO managed to ascertain last evening, the existence of proofs and concrete information may lead shortly even to the expulsion of high-ranking officials of the Angolan Embassy in Lisbon operating near Campo Pequeno.

Moreover, it should be recalled that this is not the first time that members of the MPLA regime's secret services have become involved in criminal activities in our country. Two years ago, a pilot for TAAG, the Angolan airline, was found dead on a beach in Coast da Caparica with two shots in the head and it was later learned that he was allegedly involved in diamond and drug traffic. Today, 2 years after the incident, there is still a strong suspicion that he had been silenced by the DISA.

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2 July 1986

POLITICAL

PORTUGAL

DEFICIENCIES IN EDUCATION, ILLITERACY PROBLEMS NOTED

Lisbon TEMPO in Portuguese 9 May 86 p 13

[Interview with MDP/CDE director Helena Cidade Moura; in Lisbon, date not given]

[Excerpts] Out of the total number of primary school enrollees, the rate of grade-repeaters in Portugal is 16 times greater than in Greece, Helena Cidade Moura told TEMPO during the interview that we are publishing below, which analyzes the main problems with which education in our country is struggling today. An MDP/CDE director and responsible for one of the best bills on the basic educational system presented in the Assembly of the Republic, Helena Cidade Moura is currently a researcher in the Occupational Guidance Institute.

[Question] How is the country doing in terms of education?

[Answer] As in everything else, simplifications are always dangerous. We can say that as a result of 25 April, there was an extraordinary influx to the schools to which successive governments have been unable to respond.

I am convinced that we are in a situation of great human resourcefulness and of great sensitivity to the problems of education. What does not yet exist, I think, is a sufficiently generalized concept and an awareness of education.

[Question] What does the fact that, except for the CDS, all the parliamentary groups have presented bills on the basic educational system signify to you? Do you believe that there is really sufficient will and flexibility for a bill that takes into account the national situation to be approved?

[Answer] I believe so. Moreover, the only bill that was not inherently in accord with the real situation and which has now been quite improved was that of the PSD.

Generally speaking, I believe that the bills tend toward a certain convergence it would be desirable to maintain in formulating regulatory laws so that it may be possible to resolve the most serious problems.

[Question] Basically, what are those problems?

[Answer] One of the great problems lies in the fact that the educational base in Portugal is very small. We have very few people in the schools and for a very short time.

[Question] Few students?

[Answer] Yes, few students in terms of percentage of the population. We have compulsory education for only 6 years. In 1983, for example, only 11.4 percent of the students who completed their primary education enrolled in the preparatory course. That is, even the 6 years of compulsory schooling are terribly badly filled. To support that statement of mine, I will tell you, as an example, that in Setubal 4.4 percent of the children do not complete their compulsory schooling; in Vila Real, 19.7; in Braga, 15.6; in Faro, 5.2 percent.

Compulsory Education

[Question] Do you believe that the number of years of compulsory education should be increased?

[Answer] When we speak of compulsory education, we are referring to actual schooling and not legislated schooling. We believe, therefore, that it must necessarily increase. But besides that we also have the problem of preschool education, which is practically nonexistent, and the tremendous illiteracy rate.

[Question] I am reminded of a minister of education who said on television that the illiteracy rate in Portugal would decline only as the old people died off...

[Answer] But the worst is that today, in Oporto for example, 46 percent of the students in the adult education courses of the Directorate General of Continuing Education are between 14 and 19 years of age; and the national average is 25.

Illiteracy is a very serious problem in Portugal. Moreover, the fact that, as I have been informed, the ministry has reduced the appropriations to combat illiteracy and intends to cover only those over 25 years of age does not make any sense at all. Basically, it is continuing to misunderstand the phenomenon of illiteracy.

[Question] In your opinion, how is that illiteracy rate going to go down?

[Answer] It would be very easy through the implementation of courses and the creation of a social dynamic; because teaching people to read is cheap.

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2 July 1986

POLITICAL

SWEDEN

BOURGEOIS OPPOSITION PARTIES CONFOUNDED BY CARLSSON

Nonsocialists Searching for Issues

Stockholm SVENSKA DAGBLADET in Swedish 10 May 86 p 6

[Commentary by Anders Jonsson: "Tug-of-War Over Center Party the Only Thing Happening"]

[Text] It seems that political conflicts have seldom been as rare and as minor as they are at the moment.

The nonsocialist opposition considers the proposals in the government's supplementary budget bill to be actually "nonsocialist" and has only marginal objections.

The opposition to the left of the government--both inside and outside the Social Democratic Party--seems to have become confused following Olof Palme's assassination and as a result of the prospects for a real wage increase this year.

"Government Doing the Right Thing"

The leader of the largest opposition party in Parliament, Ulf Adelsohn of the Conservative Party, says spontaneously that there is not much to quarrel about just now.

The statements in the revised budget are such that he himself might have made a great many of them. And when pressed to come up with a controversial issue, all he can think of is the possibility of a future battle over a tax on real interest.

Adelsohn feels that the government is doing the right thing by now allowing private consumption to rise rather than using the favorable situation of low oil prices, a cheaper dollar, lower interest rates, and slower inflation to further reduce the state's deficit.

Feldt Praised

The leader of the Conservative Party considers it reasonable that the purchasing power of households should be allowed to rise following several difficult years, provided, however, that the government really succeeds in limiting public consumption in the central and local governments.

So there is mostly praise from the Right for the government in general and for Minister of Finance Kjell-Olof Feldt in particular. One might therefore expect protests from the Left, but things are markedly quiet in that sector.

The so-called Dala appeal and other critical voices inside and outside the Social Democratic Party have become confused as a result of the assassination of Olof Palme. If the central wage agreements in the private sector deliver what they promise, the resulting improvement in low wages and the increase in real wages will eliminate part of the grounds for criticism.

No Heated Feelings

Not even Feldt's far-reaching proposal to ease foreign exchange regulations seems to be arousing heated feelings. This despite the fact that the minister of finance's justification for allowing Swedish firms to export money for foreign investment is "that so much money is sloshing around in the firms."

It was always said before that with the devaluation of 1982 and their economic policy, the Social Democrats were trying to achieve a high profit level so as to increase investment within Sweden.

But now that the firms are using part of their profits to speculate and buy each other out on the stock exchange, it is just as well to let them use the money for foreign investment. That is Feldt's line of reasoning, and to a large extent, no one is contradicting him.

Fight Over Center Party

It is true that the leadership of the LO [Swedish Federation of Trade Unions] let out a grunt, and in his speech on 1 May, Stig Malm said he assumed that the government was not going to let money be taken out of the country for speculation, but no louder protests than that have been heard.

In the general lull, the most interesting thing in politics just now is the tug-of-war to win the Center Party's favor. The suitors are crowded around Karin Soder, but whether on the left or the right, they are going to get the brushoff as long as the Center Party's proposals are not accepted.

Ulf Adelsohn and Bengt Westerberg (Liberal Party) are inviting Soder to dance with proposals of "guiding principles" and "platforms" for nonsocialist cooperation aimed at facilitating cooperation following a possible election victory in 1988 and at making it difficult for the government to get its proposals approved in Parliament.

Nuclear Accident

Prime Minister Ingvar Carlsson is inviting her to participate in objective political cooperation, since he considers it a good idea to avoid relying on Lars Werner of the VPK [Left Party-Communists] and to split the nonsocialists. It may also be that in his heart of hearts, he is thinking of a more solid relationship with Karin Soder's Center Party.

But if there is anything that Center Party activists have concluded from their analysis of the election defeat, it is that independence is important. The Center Party is going to pursue its own policy and emphasize its own image.

No Hugs From Soder

The accident in Chernobyl has also placed the issue of nuclear power back on the Center Party's agenda. And that does not facilitate cooperation either with the two other nonsocialist parties or with the government.

The most likely result, therefore, is that suitors Carlsson, Adelsohn, and Westerberg will have to get along for the next few years with no protracted hugs from Mrs Soder.

Unable To Offer Alternatives

Stockholm SVENSKA DAGBLADET in Swedish 11 May 86 p 5

[Commentary by Ulf Wickbom: "Strange Political Opposition"]

[Text] Prime Minister Ingvar Carlsson has visited the Soviet Union and Norway with no complications on the world political scene. Minister of Finance Kjell-Olof Feldt can be pleased that oil prices, the dollar rate, and lower international interest rates are still giving Sweden a boost. Minister of Education Lennart Bodstrom finds himself in the kind of political calm that may herald his appointment as county governor or ambassador to Greenland.

No wonder the desire is being expressed in newspaper columns for a nonsocialist alternative for government. But what is it supposed to consist of?

Sweden has a strange political opposition at the moment.

The Center Party has a party leader who, after excessively long deliberation, has decided to make herself available.

The Conservatives have a party leader who, after deliberation that took almost as long, has decided not to step down.

Politics is a matter of wanting something, not of having wanted first one thing and then another for months on end.

Westerberg Has Become a Doubter

Bengt Westerberg has become a doubter, since he scarcely seems to believe in nonsocialist cooperation, and Alf Svensson, leader of the KDS [Christian Democratic Union], appears to have become an atheist, since he has lost all faith in himself.

What is wrong with the opposition? Why are its members unable to construct a common platform in preparation for the next election? That is the question being asked in the newspaper columns. The answer to that question is that the planks making up that platform would be so rotten that the senior safety representative would immediately condemn it and allow no nonsocialist party leaders to stand on it except those accompanied by approved guardian angels.

On a day-to-day basis, there is nothing seriously wrong with the opposition. As short-sighted politicians, the nonsocialist party leaders are perfectly fine.

They huff and puff to stay close on the heels of the cabinet ministers. Less than 15 minutes after the government makes a move, they are ready to express their opinions to the mass media. With wonderful persistence, they make it clear that they agree with the government's decision in substance (because according to the rules of Swedish politics, as formulated by the Social Democrats, the Social Democrats are always right in substance). The opposition agrees in substance, but is roused to indignation by the fact that the Decision did not involve 500 million kronor more or a quarter of a percent less.

In other words, there is nothing seriously wrong with the opposition's criticism of the government. If anything, the deficiency is to be found in self-criticism by the nonsocialist parties.

The Conservatives, the Center Party, and Alf Svensson have not succeeded in coping with their decline. As is customary with the favorite in SIFO [Swedish Institute of Public Opinion Polls] polls, the Liberal Party is displaying a lack of interest in managing and stabilizing its success. So far, no nonsocialist party has ever become stable enough to remain above the 30-percent mark for more than a few seasons.

The Center Party came close to being wiped out in the election. The party's postelection analysis showed that there was nothing wrong with the party leadership or the policy pursued. An emergency group has now been appointed to find out what is wrong with the voters. The probable answer is that there are not enough voters to go around.

According to SIFO, the Conservatives are down by nearly half. Parties on the decline never believe public opinion polls. But a self-examination is underway among the Conservatives, and it has resulted in an open split in the party. One wing feels that Ulf Adelsohn has spent too many evenings at home in the bosom of his family. Another wing claims that he ought to do so a lot more often.

A compromise has been worked out with Lars Tobisson as full-time joker. Ulf Adelsohn thereby gets more evenings at home and also more evenings out with the people. One would have to look at Fermenta and its appointment of Refaat El-Sayed as deputy chairman of the board to find an equally cosmetic solution to a deep-seated problem.

The problem: the opposition's credibility does not depend solely on its criticism of the government. Saying "no" or "well, yeah" does not represent the higher school of statesmanship.

Ulfie's Dilemma

An opposition is supposed to oppose, but it is also supposed to say why. Politics must therefore include a dose of ideology providing continuity with the past and embracing a vision pointing to the future--perhaps even beyond the next election. Have you heard anything like that recently?

The Conservative Party's success during the 1970's and the early 1980's was based on a consistent message which, long before such a message became common property, was demanding lower taxes to check the rise of the new poor, pleading for better education to take advantage of the country's intellectual natural resources, and talking about law and order.

Suddenly the Conservatives gained a hearing for their persistent demands. But their success followed the usual nonsocialist pattern. The nonsocialist party whose turn it is to be biggest grows steadily until its members no longer recognize it.

We usually call that phenomenon Ulfie's Dilemma. When Ulf Adelsohn promised to reduce taxes for the rich, everyone naturally wanted to be one of the rich. But when the Conservatives had 100 percent of the voters behind them, everyone realized that there were no poor left to pay for those tax reductions. And suddenly no one wanted to be a Conservative.

Ulfie's Dilemma teaches us that it is more important to have just a few members who feel at home than many SIFO supporters who wind up feeling confused.

In times of decline, the nonsocialist parties always begin their Hunt for the New Issue that will save the party. The Center Party has been on that hunt for many years. The Conservatives are quite new at the game.

But the truth is that there are no new issues. The Conservatives in particular ought to know that tomorrow's visions turn out to be shaped by yesterday's experiences when they are laboriously pressed through the strainer of our own times.

Who can believe in a party which was claiming last year that Sweden was on the way to becoming a totalitarian state on the horrifying Orwellian model, but which this year is not even giving the word "freedom" conspicuous mention?

A Healthier Alternative!

The trouble with the nonsocialist opposition is that it adapts all too much to party-political circumstances, in which the Social Democrats currently dominate the issues and the rules of the game, and that it adapts all too little to the voters and reality.

Perhaps what we are witnessing is simply the difference between a big party representing a popular movement and nonsocialist parties which come closer to being parliamentary groups and electoral machines.

Don't go building a nonsocialist platform with those rotten planks, if you please! Swedish democracy needs a healthier alternative!

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2 July 1986

MILITARY

FEDERAL REPUBLIC OF GERMANY

ARMAMENTS CHIEF ADDRESSES PROCUREMENT, BUDGETING PROBLEMS

Bonn WEHRTECHNIK in German May 86 pp 18-29

[Interview with Prof Dr Manfred Timmermann, state secretary for armament questions in the Ministry of Defense: "It Is Easier for You To Move a Billion DM Than To Alter a Travel Accounting Claim"; date and place not given; first two paragraphs are WEHRTECHNIK introduction]

[Text] The music marking the start of the reception for the Argentine minister of defense at the Federal Ministry of Defense, in which Prof Dr Manfred Timmermann had to participate, terminated the WEHRTECHNIK conversation with the state secretary for armament questions relatively abruptly--however, in the hours preceding this time Prof Timmermann outlined a lively picture of the current efforts to reorganize the armaments sector and of questions connected therewith. A number of organizational and procedural improvements are to be decided on this year which are designed to make the armaments business more efficient; thus, for example, there is to be a decision on the reorganization of the armaments area and the increased use of subcontractors, independent of the large concerns, primarily from middle management with respect to large-scale orders.

Other improvements, prepared by Prof Timmermann are aimed at raising greater use of electronic data processing in the armaments area and a comprehensive training program and postgraduate training of employees in management procedures in modern technologies. The state secretary judges that the situation in the armaments industry varies depending on the particular industrial niche--he also sees the growing difficulties involved in the large-scale international programs but considers them capable of solution. And as regards cost estimates--one of Prof Timmermann's favorite topics--he proposes to make cost proposals only at the end of the definition phase when the technical interpretations of a system to be newly developed are in hand in detail, so they can then be adhered to.

WEHRTECHNIK: The planned reorganization of the armaments area is closely connected with your name. How far have you progressed in this area? Will there soon be a new "gymnasium conference"?

Timmermann: The topic occupies us because the tasks in the armaments area are changing constantly and the organization must adapt to these changes. That is

why we are considering how we can adapt so that we can make this area as efficient as possible.

We addressed the large area of delivery organization. This includes particularly the equipment of employees in the systems management area with a data processing infrastructure so that a modern, computer-based project management system becomes possible. This has partially already occurred and we wish to promote it with priority in accordance with new opportunities which are now being developed by data processing technology in the information-technical area; this means decentralized processing to the extent possible but, naturally, in the internal systems sense. The giant quantities of data which we must process in our projects can, on the one hand, be stored centrally and, on the other hand, processed in a decentralized manner. The first results are not so shabby. There are some quite good insular solutions--even within the Bundeswehr Procurement Office (BWB), where this is being done well. Another aspect of the flow organization is an intensification of the training, using all modern methods of project or systems management. Our new employee is either an outstanding engineer or an administrative lawyer who, however, has learned no management normally. Because of the very complicated management tasks--you have only to think of the magnitude of the financially very voluminous projects--he is to be taught management methods at the newest level. We want to conduct this training now with intensity.

WEHRTECHNIK: Through the Federal Academy for Defense Administration and Defense Technology at Mannheim?

Timmermann: Mannheim is a contribution in this direction. We wish to also do it directly, for example, with the BWB and the Scientific Advanced School at Koblenz. We would like to use all possibilities to train our people.

And so, as many of the employees in the armaments area--in other words, in the armaments section, in the BWB, and all that belongs to this area--should have at least the basic knowledge of automatic data processing and, at best, should know something more.

Intensify Training in Modern Technologies

WEHRTECHNIK: You now wish to improve the training of the projects or systems management area--in other words, you want to begin more at the "upper level." We see a danger at the lower level, at the level of the so-called civil service engineer, who, for example, virtually no longer functions at the BWB as a proposing or developing engineer. Does he not soon lose any connection with modern equipment?

Timmermann: We wish to increase training in modern technology substantially, among other reasons because we cannot acquire the changes in technology through new employees, particularly in the civilian sector. Things are still a bit tolerable in the military sector, where we have acquired the services of outstandingly trained officers from the Bundeswehr universities who have good knowledge in, for example, informatics, electronics, or other scientific disciplines. It is precisely the technical disciplines which are enjoying a good reputation at the Bundeswehr universities--disciplines such as informatics.

We also notice here at the ministry that the military side in these disciplines is simply better. How should it be different when soldiers enter the leadership level here every few years--on the other hand (in other words, in the armaments section), someone is employed who studied engineering 20 years ago and cannot now expend so much time continuously at congresses or reading specialized literature to bring themselves up to the most recent information level. However, with respect to the military types, the demands of the armaments section are appropriately formulated--that is the location from which tactical requirements originate, this is the office which follows technical developments with a much more modern scientific view than can be done by the civilian counterparts in the armaments sector. This is why I would like to see a certain appropriate mobility among the employees or rotation or whatever designation you wish in the civilian sector. But that is an illusion. Things will never get that far; the only thing one can do: One can improve it, for example, through exchanges between Koblenz and Bonn.

Civil Servants to Industry

WEHRTECHNIK: How would it be if civil servants were to go to industry?

Timmermann: We could make things much easier for ourselves in adapting to the modern status of technology if our people would go to industry for a year and, to wit, to smaller companies. I would not be opposed to have people from industry come to us in exchange--with the possibility that each would remain on his own "payroll." Otherwise, there would be enormous difficulties and other problems--for example, for Munich there is no ministerial supplemental payment. One can demand everything very easily, but it is extremely difficult to transform these demands into actions. We can do a lot here with proper personnel planning and proper fringe benefits. My efforts are aimed at making use of everything within the framework of existing regulations. To improve the fringe benefits by changing the rights of civil servants--this I am approaching only very carefully since this is not at all within the jurisdiction of this ministry and could only be accomplished in conjunction with the Ministry of the Interior and then only on a very long-range basis.

External Project Support, at First Involving a Pilot Project

But let us proceed to another point of the intended improvements in the project management system. At first involving a pilot project, we intend to initiate external project support--in other words, we wish to employ external entrepreneurial advisers. They will also act a little bit like a psychological catalyst so that differing viewpoints pertaining to a given project do not always defend the same interests: Here, industry, there, the ministry. This crew, which has an excellent command of management techniques, has experience in controlling large projects. It is supposed to help us, on the one hand, to learn and, on the other hand, introduce the "early warning system" with respect to possible difficulties which occur later: Where is a schedule, a cost, or a performance output out of control?

WEHRTECHNIK: Which project is involved?

Timmermann: I cannot tell you that today yet since the decision has not even been made. On the one hand, we wish to have something which we could use to prove that this project support also works with respect to the most demanding projects, on the other hand, we do not wish to saddle ourselves directly with too complicated and too difficult a problem.

Detailed Cost Estimates Only After the Definition Phase

WEHRTECHNIK: You consider the three components of management, the entire training sector, and the external project support to be essential prerequisites for improving the procurement process--however, does not the armaments law have to be changed because by adhering to it considerable difficulties arise quite frequently?

Timmermann: There are very important and critical points here which cause us immense difficulties in our daily work--they involve parliament and the public, but involve industry much more. This is the timing of the cost estimates. According to the armaments regulations, it is necessary for us to present a cost estimate on a timely basis; these estimates then find their way into Bundeswehr planning, into financial plans, and into the budget.

We are expected to come up with cost estimates at a time when none of us know anything yet about the final configuration of the weapons system involved. By all I mean neither officials nor industry. We only have the idea, but we must, for example, state that development costs will be DM 2.7 billion and 22 billion at the time of procurement. Who actually knows this? It is only at the end of the definition phase that we have any technical specifications. Later, the heavy end shows up: The conception phase is concluded and industry then comes up with some kind of higher cost figures, involving 40 through even 80 percent cost increases! At that time, the cry of mismanagement is heard at the Ministry of Defense. The fundamental idea for the change consists in our having to be satisfied during the concept phase and the definition phase with development of technological components. A specific sum will be expended on this work. Only after the definition phase will we be coming up with a binding cost estimate which will become the basis for Bundeswehr planning, budget planning, or financial planning.

WEHRTECHNIK: Will these phases then not have to be better financed than heretofore?

Timmermann: If you take the question of the life span costs seriously then the design and definition phase must be well financed, irrespective of the question of competition.

WEHRTECHNIK: But how can your minister present parliament in subsequent cost estimates a thoroughly and well-planned 15-year plan?

Timmermann: This presents no contradiction. All I do is set the time later at which I will specify the costs of a weapons system. I would very much like to not tie the design phase and definition phase to projects, but rather to technologies and task formation. We will make money available for this in the

plan and will only treat the matter in a project-oriented manner when we know the actual configuration of a piece of equipment for a system. Until then we will continue doing as we do now: position reserve planning. That means we plan to include task-oriented funds, for example, for a tactical reconnaissance system.

WEHRTECHNIK: You just named the example of the reconnaissance system which consists of several components. And now, for example, you see at a later time that a partial system has become more expensive than had been planned. Does that mean that the other partial systems will receive fewer funds?

Timmermann: In this task-oriented planning, we cannot avoid priorities, but the planning is now task-oriented and no longer tied to a specific project, which leads to a procurement presentation which then, in the data on development and procurement costs, deviates from those which have been in the plans for the last 5 or 7 years.

Bundeswehr Plan 86--An Internal Working Paper

WEHRTECHNIK: Does that mean that occasionally--because of a better status of knowledge--changes in the Bundeswehr plan will have to be made and those will surely not please the delegates?

Timmermann: The Bundeswehr plan is an internal working paper. It is not an instrument of parliament and also not an instrument of the minister of finance. It is an internal working instrument which serves as a basis for the annual addresses of the budget plan and the finance plan. Who should be able to see into the future 15 years ahead with certainty? In principle, a certain amount of change is even desirable in order to be able to react to altered conditions. In other words, I see plan changes to be something positive. We have planned an annual critical evaluation and that is why changes should be accepted. The minister of finance is not directly filled in on this process.

New Subdepartment for Missiles

WEHRTECHNIK: Everything that has been said thus far concerned the new organization of the armaments sector--if one construes this word very broadly. What is the status of the reorganization, however, how and when will the armaments sector be altered?

Timmermann: Naturally, a change in the organization is also being discussed. Why should something which was conceived 20 years ago with respect to the structure of a department not be capable of improvement as the tasks change? We have made a very small but essential step by integrating data processing in the normal concept of the armaments section. It has started well and we now want to achieve a synergistic effect through this combination of all data processing capacities within the ministry. We are further considering whether we should do something similar with respect to missiles, perhaps in the sense of a missile subdepartment.

However, we have not discussed this yet because we do not want to preempt the general armaments section reorganization.

This new organization, including cooperation between the RueFo section and the technology offices in the various project sections and cooperation with the appropriate organization of the BWB, was carefully examined by the organizational staff. I believe that this staff has a good analysis and a good proposal. We discussed this within the ministry with all appropriately responsible individuals. The position papers are now in hand and we have passed them on for decision to the minister, who will decide on the next step.

WEHRTECHNIK: At one time you had voiced certain ideas, for example, such as a type of three-cornered division of the present armaments section. Was that retained?

Timmermann: The organizational staff proposed all conceivable reality-based alternatives and variations. Now, one or another direction must be examined in detail. We do not want to speak about the substantive content until the minister has made his decision.

WEHRTECHNIK: We gladly accept this offer. Nevertheless, we ask the question now: Will the new organization discontinue a certain two-track or three-track approach in the program department, as had already been established by Mr Emke--in other words, in the armaments section, at the BWB, and in the arms of service offices, in order to achieve a rationalization effect?

Timmermann: This is, in essence, the principal point of the entire discussion. The ideal situation is naturally the following: We need a person who can speak for the entire Ministry of Defense, for the entire Bundeswehr with industry and also with foreign countries. Only--again this is very easily said. We must bring this into agreement with the jurisdiction of the individual hierarchical columns here. Naturally, we do not wish to change the principle of the dialogue, not because of alleged turf considerations, but because we consider it to be correct.

Difficulties of Project Management

WEHRTECHNIK: Will the decision with respect to reorganization be made by the minister before the summer recess?

Timmermann: I am assuming that. We now have an opinion in hand from the organizational staff and a position paper from the inspectors and the inspector general, as well as from the armaments section. The fundamental idea of the reorganization is generally accepted--converting it to reality, however, has given rise to various opinions.

On the Image of the BWB

WEHRTECHNIK: Perhaps because of the difficulties you mentioned with respect to the course of an armaments project, the BWB does not have a good image--particularly with the parliamentary delegates. What can be done to counter that?

Timmermann: I gained a little clarifying insight into this during the accountability sessions of the budgetary committee. However, one should attribute this--if at all--to the overall organization of the BWB and not to individual employees. Like everywhere else, these are predominantly competent people. The poor image, in my view, is caused by the sheer magnitude of this organization. An organization which encompasses some 19,000 employees must be considered to be a bureaucratic elephant. It cannot defend itself against this concept and suffers from all the disadvantages which are attendant to a large-scale organization--which is not only true of a bureaucracy with respect to administration, but is also true of large industrial administrations. I must say it again and again: The bureaucratization in industry is exactly the same; the same stacks of files are handled there as they are here. But industry has the advantage in that the limits to which it can go with such overbureaucratization are set by the marketplace. If these common costs are no longer carried by the market, then it can be all over.

WEHRTECHNIK: However, in industry, bureaucratization is less visible. If you think only of the 10 or 20 concurring signatures within the ministry...

Timmermann: ...just consider the approval of a travel request to Greece for a top employee of industry and for one of our employees: The number of signatures required by the industrial employee is absolutely no different from those required by us. The difference is only that he flies there first class and that we must go by train.

WEHRTECHNIK: But how can the allowances be changed--does this involve the minister of finance?

Timmermann: I am attempting to see to it that future costs of this type are paid from project funds, as is done by other nations: They account for all of this as management costs. We must cover these costs from the travel budget and, naturally, are subject to superior office control on the part of the Ministry of Finance. With all the detrimental effects, naturally. And yet, we require our project people to be managers of giant projects. These people must manage billions and are expected to do so with great involvement--however, we treat them far below that level.

WEHRTECHNIK: Let us hope that things will change soon!

Timmermann: We are likely to be able to move DM 1 billion easier than to change a travel accounting report.

But back to the question of image: Because of the magnitude of the office, which in itself already inclines toward overbureaucratization, we must attempt to finally decentralize the BWB. Why must the Navy arsenal, employing 2,700 people at Wilhelmshaven and 2,300 at Kiel, be managed from Koblenz? Can we not give them the budget and personnel responsibility with specialized oversight by the BWB? I can imagine that we could do much the same with the procurement offices, possibly even with the testing offices and the defense-scientific offices. We could, if you will, defatten the BWB into an efficient organization caring for the implementation of projects which originate in the

armaments section and which would see to the development of the equipment. On the other hand, the procurement offices could handle spare parts procurement and current business transactions; all of the technical development could lie with the testing offices. Smaller units are more manageable.

In this direction we believe only small slow steps will be made.

Furthermore, the BWB must be appropriately sold. This cannot only be done by simply changing its organization, but the BWB must become active externally with respect to the economy, with respect to middle management.

Stronger Participation on the Part of Establishments Which Are Not Dependent on Concerns

WEHRTECHNIK: The general entrepreneur decree is particularly unpopular with middle-sized and small establishments. What is the extent of possible improvements for this branch of industry without restricting the responsibility of a general entrepreneur for the product too much?

Timmermann: We are working on an amendment of the general entrepreneur decree. The share of the volume of the order which is passed on to contractors who are independent of the large concern or the general contractor, is to be decisive in selecting a general entrepreneur. This is supposed to prevent a situation in which a large-scale entrepreneur would largely pass on orders to its own subsidiary enterprises. The proposal must specify the share of the orders going to concern-independent establishments--as a rule, the orders are passed to middle-sized establishments. However this is not only to become a criterion for procurement, we wish to use it as a sanction. Whoever deviates from the 80-percent quota of the orders to be passed to concern-independent middle-sized establishments after the procurement order is placed will have to pay a contract fine--this is the only way. Apart from the general contractor decree, every contract will contain a clause which will be a big plus in the selection of the general contractor for those establishments which pass on as much as possible of the orders to concern-independent subcontractors. Furthermore, adherents to the data provided in the proposal which lead to selection of the general contractor is to be guaranteed by actionable punitive regulations by way of sanctions.

No Ideal Structure for the German Armaments Industry

WEHRTECHNIK: When is all this to come about?

Timmermann: With respect to the general contractor decree, everything has already been worked on--it is supposed to be presented in its current form this year.

At this point, however, I would like to say something about the structure of the German armaments industry: It is not very simple to formulate an ideal structure in this respect. On the one hand, I naturally favor much competition between capable enterprises and particularly between middle-sized enterprises. We can support these by not working with so-called "hereditary

houses," but by requesting proposals from as many good middle-sized establishments as possible. Nevertheless, we must have two, three, or four highly capable technological concerns which, in the framework of international armaments cooperation, could act as conversation partners for the others. In this manner, I see a technological concern such as the MBB or Daimler-Benz with AEG, Dornier, and MTU as being absolutely positive. This maintains our chances particularly also vis-a-vis the United States of being able to take up relationships with their concerns and of being accepted by them. So the question of the proper middle course remains. For example, I do not want a technological concern which concentrates only on defense equipment--I want a technological concern which also produces defense equipment but draws its know-how from the civilian sector. So, we shall not support further concentration of defense-technical turnover with respect to a single establishment. This leads to a mutual and unhealthy dependency. For one, the competition of ideas dies down; for another, poorly utilized capacities become dependent upon the state. I would much rather have any establishment which has a Bundeswehr turnover of less than 30 percent than one which has a turnover of more than 30 percent. Every empirical investigation shows that establishments with the largest defense turnover share adapt the poorest to new technological developments.

Demand Performance From Industry

WEHRTECHNIK: You are a very strong proponent of competition, which industry also wants to undertake, albeit with some complaints. But how can industrial performance be promoted?

Timmermann: We now have the following rules that apply to the accounting of costs for free research and development: An establishment can bill us for that share of these costs which is appropriate to the share of their defense contract in their total turnover. An establishment having 80 percent of its volume in Bundeswehr turnover virtually carries no risk--the one who has 0-percent Bundeswehr turnover unfortunately doesn't receive anything, since he cannot park his expenditures in any Bundeswehr order. And so, new enterprises do not even approach these advantages. We want to put a stop to this. The enterprise which comes in with proven performance will also receive something else from us. This is supposed to represent the stimulus for enterprise performance--we are still currently talking about the details with the BTI.

Utilization of the Armaments Industry

WEHRTECHNIK: How do you see the utilization of the tank, aviation, shipbuilding, and electronics industries in the short run--that is to say, over the next 2 or 3 years and for the medium and long range?

Timmermann: For the short term, poorly. With respect to the tank industry: Tank production--I am specifically thinking here of the LEOPARD 2--is now coming to an end. The followon by the tank howitzer or the combat vehicle Model 90 is not attainable in the short run. For the medium and long range I see the necessity of adjusting to a lower level, at least as far as production is concerned--I wish to leave this question open with respect to development.

What is generally true is that: the carrier--the platform--no longer stands in the foreground with respect to rates of increase. Industry must adapt to this--we have been preaching this for years. On the other hand: We make our industry political troubles through export restrictions and that is why we must, for the short term, also be cooperative with industry. It is precisely the LEOPARD 2 that industry could do the best job selling in the world market and we would try to procure some more ourselves. However, since this is not the case, we must help industry a little, for example, through special armaments aid for countries such as Turkey--but in this case there has been no decision. In the long run, there is a recommendation for industry: Reduce capacity but remain capable of performance.

With respect to the aviation industry things are not quite that critical. We now have the TORNADO export orders. A few things will be going on here. We will also join in with an indeterminate number of TORNADO ECR aircraft so that no great hole will open up in this area until production of the fighter aircraft Model 90, particularly since the industry is well occupied producing the AIRBUS. One must see the situation in a somewhat differentiated manner with respect to the equipment industry.

And as regards the shipbuilding industry: There are no worries with respect to the short-range and medium-range time frame as far as construction of warships is concerned; in the long run, however, there is a large question mark. We have now placed an order with Harmsdorf for fleet service boats and ordered multipurpose boats from Nobiskrug, Elsfleth, Luerksen, and Kroeger, mine combat ships from Luerksen, Kroeger, Abeking & Rasmussen. And we will now place orders for Model 332 mine hunter vessels, but the question of the supplier is still open. But in any event, the orders will be placed with medium-sized shipyards if they do not become completely indecent, forcing us to use the large shipyards for purposes of competition.

Furthermore, we have ordered a frigate from the Vulkan Shipyard in Bremen and one from the Thyssen North Sea Shipyard; Blohm and Voss can live without us, HDW is busy increasing the combat quality of the U-206A submarine so that, basically, for the medium term, we have good distribution, also structurally. What is interesting is that all those who receive no subsidies--that is to say, Blohm and Voss among the large shipyards, Luerksen among the medium shipyards and perhaps Meyer at Papenburg among the small shipyards, have no problems and all those who do receive subsidies are saying: "For God sakes, we're drowning." In other words, even in the shipyard industry--with the possible exception of individual cases--there are no major problems with regard to short-term and medium-term Navy orders.

In the electronics industry I see absolutely no problems as far as business is concerned. If the enterprises are good, they can help themselves from the civilian sector. If I consider the electronics industry in the broad sense and begin with communications equipment, then the industry will receive many orders from the Bundeswehr in the medium term and the long term. All of the telecommunications business in general and the entire information management business is actually only just starting. This begins with office communications which we are now introducing in the management area all the way through

data processing as you discussed it before through data processing in weapons systems and software--in other words, a fantastic market.

WEHRTECHNIK: In other words, on the basis of their financial strength, larger enterprises are expected, for the most part, to be able to weather a drought. But how do things stand with the smaller enterprises in the armaments industry? They are particularly hard hit if, for example, programs such as the Model 90 combat vehicle are delayed. Small enterprises do have, in part, a quite considerable share of the defense equipment business? For them it is, thus, quite difficult to overcome gaps in orders.

Timmermann: If these medium-sized enterprises were oriented toward one weapons system or only toward one category, such as, for example, tracked vehicles, then one cannot basically help them very much. Large-scale undertakings always have peaks and valleys. These enterprises can only be given the advice to diversify. We are attempting to persuade them to mold themselves, with respect to technology, in such a manner that they would have something additional to offer to another area where they could be developing technology and components. We cannot help them in any other way.

Troubled Children: International Projects

WEHRTECHNIK: Is there a worm in "international armaments cooperation"? One hears complaints with respect to the Model 90 fighter aircraft, with respect to the PAH-2, PARS-3 doesn't seem to want to proceed so well--what is actually happening?

Timmermann: These are not all our worries. There are, for example, the tank howitzer and there is a problem--and this is your favorite topic--involving the RAM.

First: Perhaps with the exception of the tank howitzer, these are large-scale undertakings which place high requirements upon technical perfection or technical innovation.

Second: These are programs which cannot be very simply implemented in international cooperation.

These are the two difficulties which we are finding in virtually all projects. We are now being ever more confronted with the difficulties arising from three, four, or at least from two national interest positions. And it is necessary to always count double--namely, the national officialdom and national industry positions. With respect to the Model 90 fighter aircraft, with four partner nations, you have at least eight different interest positions.

How do we deal with this?

The Model 90 fighter: The "feasibility study" on the basis of ESR requirements of the four air forces involved must now be brought into agreement with the so-called Turin marginal values. We have not yet received a satisfactory

solution to this problem from industry. Currently, we are jointly considering variations of the proposed solutions in an effort to reach an agreement which would be satisfactory to all four partners. Added to this is the fact that the French and the Americans are striving to participate. While we want to examine this very seriously we do not wish to lose any time through this move. I assume that by mid-May we shall have the analysis on the possible variations which is intended to lead to the goal--and they will lead to the goal--in hand.

WEHRTECHNIK: Variations without, let us say at once, sacrificing performance?

Timmermann: Yes, without sacrificing performance. That is precisely the goal. We have not yet attained this goal, but I see good trends indicating that we will reach it. Point No 2 in this regard: How will the cost picture look? Irrespective of the reduction of the original five partners to four partners, we now still have no idea, at the end of the conceptual phase, how the aircraft will be configured. We will not know this until the end of the definition phase, which we wish to initiate now--and the MTZ is prepared for this step. We will undertake a four-partner cost estimate on the basis of this MTZ only once the proposal is firmed up for the definition phase following the conceptual phase.

Currently, we are still all firmly convinced that we can stay with the timetable set for placing the weapons system into the hands of troops. The Model 90 fighter aircraft has problems, but not such problems which would currently derail us in any form. We have problems--and no one can talk them away--with bringing the ESR conditions into agreement with the Turin marginal values within one concept. But we will solve this problem. One thing is clear to us: We are sticking with our requirements for a European fighter aircraft with the partners we currently have. If this does not result in a time delay or cost increase, then we are open to accepting additional partners--France or even other nations.

WEHRTECHNIK: What possibilities for cooperation still exist with France in this area?

Timmermann: There are surely a whole number of possibilities with respect to components without being able to see anything as yet that we can do jointly. Cooperation can only ensue if the four partners are prepared to include France, with the proviso that the status of the project at the time of inclusion would not be altered. The new cooperation partner--and that would be true of France also--would have to accept this.

I must now make a general remark with respect to our troubled children: It would actually be surprising if we could realize these large-scale undertakings without the above-named difficulties. This could mean that we perhaps have not gone far enough with respect to our national requirements. It is an art to formulate the requirements for a new development in such a way that they can just be fulfilled. After all, we do not want, in the first line, to have a make-work effect on our industry; we wish to achieve a technological effect, that is to say, we truly want to achieve a supplemental performance to

fulfill a military need. So, these are no unexpected problems for me; but rather, they belong to the normal project course--and that is also true for the PAH-2. Here, the actual problem lies in the fact that cooperation with France only became possible by agreeing to fabricate a basic helicopter. The various functional variations naturally result in difficulties with respect to requirements levied on the basic helicopter and with respect to the time-frame coordination involving individual technological components which are required for these purposes. However, I assume now as before--and it has also been agreed with industry in this respect--that we will be able to adhere to our cost estimates and the introduction timetable.

Sever the "Gordian Knot" With Respect to the PAH-2

WEHRTECHNIK: You spoke of maintaining costs and time frame--in other words, possible performance reductions?

Timmermann: No--but the question is whether we shall find possibilities for more agreement with respect to the equipment of the three models. If we make any progress in this area this does not represent a reduction in performance to me because the helicopters then defined will have equal capabilities; but it is a great contribution in terms of hewing to the timetable and keeping costs under control.

Conclude RAM Development

WEHRTECHNIK: With respect to RAM, however, is there still an opportunity to get off?

Timmermann: ...if we had an alternative. With respect to the RAM, the question is what can we do to successfully conclude joint development with America--that is the number one priority for us. The other question which we have examined was: Are there alternatives? There are none within the same time frame and at the same supplemental cost. Also, further development by German industry turned out to be negative. So, we are pursuing our number one priority with emphasis and high pressure. Here, also, the technical requirements are the problem which was underestimated but which is now being solved with strong support from German industry.

WEHRTECHNIK: In other words, the early warning system which you mentioned at the beginning of our conversation did not function?

Timmermann: It did not function; perhaps one failed to recognize the weight of technical problems in sufficient time; one assumed that solution was possible but it failed to materialize. This is also a little bit a problem involving the qualification of personnel, as we had previously discussed. Do we actually have enough people who are able to recognize such difficulties? Without criticizing our employees: we need supermen here--people whom we cannot actually have.

WEHRTECHNIK: But there are also other good projects: MLRS, for example, is running normally.

Timmermann: MLRS is running the best of all.

2 July 1986

MILITARY

PORTUGAL

LACK OF FUNDS AFFECTS MILITARY'S RESPONSE CAPABILITY

Lisbon TEMPO in Portuguese 9 May 86 p 46

[Excerpts] The response capability of the Armed Forces has been reduced to 30 percent due to the lack of appropriations not only for equipment but also for maintenance of existing materiel.

If the situation is not changed shortly, the Armed Forces will cease to respond to the most varied requests, specifically those connected with Portugal's presence in NATO. Even in terms of national defense, Portugal could become a protectorate of some other country; Spain, for example.

To get an idea of the seriousness of the situation, we can cite as an example what occurred during the recent U.S. attack on Libya.

The two existing radar stations, one in Pacos de Ferreira and the other in Montejunto, both obsolete, still managed to detect the movement of the F-111's that took off from British bases bound for the Mediterranean, skirting the Portuguese coast.

On the return from the operation, the American bombers were checked by Portuguese Fiats and A7P's. However, while it was still possible now to detect that movement, within some time, the obsolete Pacos de Ferreira and Montejunto radars will cease to detect anything and Portuguese airspace will be completely defenseless.

The hope of the authorities is now pinned on the future Foia station, which will have radars similar to those installed at the Lisbon airport, without any danger to the population, namely from the noise about installation of nuclear equipment.

The Foia station will permit effective coverage of one of the areas of Portuguese airspace that is practically "blind" and which encompasses the Straits of Gibraltar.

But getting back to the problem of the Armed Forces budget, which was one of the subjects mentioned by Lemos Ferreira in his speech at the ceremony marking the 12th anniversary of 25 April, it should be noted that the current figure is less than half of the one that prevailed in 1910.

As a rule, wherever appropriations for the military are discussed, mention is made of the need to reduce the number of personnel of the three branches of the Armed Forces. While that reference may be pertinent for the Army, which is still awaiting a strict definition of a defense strategy in order to determine precisely its needs in men and material, the truth is that the number of military personnel suffered a brutal drop from 1974 to 1976, rose slightly in 1979, and is now at the 1976 level.

While this was happening in the Armed Forces, the number of civil servants was tripling from 1974 until now, their number being higher than the one that prevailed in the glorious times of the empire.

Furthermore, what was said for the Army in terms of defense concepts and strategies is valid for the Air Force and Navy. As long as there is no political capacity and willingness to do it, everything that may be said about personnel, equipment, and the relative importance of the three branches of the Armed Forces will be nothing but rhetoric and pretexts to go on deceiving the Portuguese whenever a state budget is discussed.

As a matter of fact, many officials declare that education and health, for example, cannot receive more appropriations because the Armed Forces consume substantial sums unproductively.

But while in 1974 the military budget represented 6.85 percent of the Gross National Product, in 1985 that figure dropped to 2.42 percent, and the same trend is occurring this year.

In relation to the state budget, appropriations for the military represented 31.77 percent in 1974 and only 6.5 percent in 1985.

With regard to the increase of budgetary appropriations, while the Armed Forces had an increase of 25.5 percent from 1984 to 1985, all of the other sectors had much more substantial increases. Furthermore, it should be noted that that difference is even sharper in this year's budget.

Taking into account the so-called deflators on which the figures of the three branches of the Armed Forces are based, quite different from those that are normally used in calculating inflation, it may be confirmed that the military budget in 1985 should have been 115 million contos instead of the 82.5 million they actually received.

The budgetary cuts, always justified by the "uselessness" of the "troops," have led to a situation of such erosion that today Portugal has empty Armed Forces with readiness rates of around 30 percent, and some comic episodes caused by the lack of the most elementary things, as is the case of fuel.

To give a correct idea of the dangerous situation we have reached, suffice it to analyze the amount of investments made by the Armed Forces. Thus, 11.5 percent of the budget was spent on material and equipment in 1985, and it is predicted that that figure will not exceed 11 percent in 1986.

On maintenance and operation, 18 percent was spent in 1980, 27 percent in 1985, and perhaps 29 percent will be reached in 1986.

Finally, on personnel expenditures, the percentage remained at around 61 percent for the period 1980 to 1985.

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MILITARY

SWEDEN

AIR FORCE COMMANDER CITES SHORTAGE OF MEN, MATERIEL

Stockholm SVENSKA DAGBLADET in Swedish 11 May 86 p 6

[Article by Erik Liden]

[Text] "The preparedness of the Armed Forces must be improved considerably. We must be permanently prepared to engage in defensive combat, and that costs money. Although the probability of a surprise attack has not increased markedly, the technical possibilities have."

So says Lieutenant General Sven-Olof Olson, Air Force commander in chief, in an interview granted to SVENSKA DAGBLADET on the eve of the Air Force's 60th anniversary celebration, which will begin in June with big "Air Force Days" in Ostersund and Ljungbyhed. The Air Force commander in chief is seriously worried about his service's numerical strength, which has dropped steadily since the late 1960's with no corresponding decline in the rest of the world.

"We cannot get away from the fact that over the past 10 or 15 years, both NATO and the Warsaw Pact have improved their air forces both in quality and in quantity. Today, for example, the Soviet Air Force can even reach targets on the Swedish west coast from its own bases, something that was not possible before. The Military Council and the politicians must both take that into account as we approach the 1987 defense decision."

Extra Fighter Squadron

"The Air Force's responsibility for total air defense leads me to assign priority to the establishment of an extra fighter squadron of Viggens. It is needed to strengthen air defense in central Sweden and on Gotland. A fighter squadron costs a lot of money--around 15 billion kronor--and despite the priority I have assigned to it, the current allocation of defense money means that it could be established only at the two highest financial levels cut of the seven now being analyzed for the government by the OB [supreme commander of the Armed Forces] and the commanders in chief of the services."

Although every krona supplied to the Air Forces helps, Sven-Olof Olson emphasizes that an unchanged or moderately higher defense spending level will not permit quantitative improvements in the air.

Quality not Enough

"That is alarming, considering that we need more money in order to face up to the threats that may be directed against us. The quality of the flight systems we use today is good in many respects, but the quantity is almost at the critical stage. No flight system in the world can do its job if there are not enough aircraft, bases, radar stations, and--especially--personnel.

"The favorable picture that can be presented of Air Force quality is not matched as far as quantity is concerned. I feel great concern over the fact that the number of air squadrons has been reduced at the same time that expansion of the base and combat information systems has been delayed. What it means is that we do not have access to the funds required. I note that in comparison with the rest of the world, we are quantitatively down to what I will call a minimum operating level, if in fact we have not already dropped below it."

Political Understanding

The Air Force commander in chief points out that reducing the size of an organization can be done quickly and relatively easily but that building it up again or even making marginal improvements requires great efforts.

"I believe, however, that our politicians have now realized that the strength of the Armed Forces cannot be undermined still more. A specific example of this was the decision to save the three Draken squadrons at F-10 in Angelholm following the four-party talks in March 1984. It was realized at the time that the demand for quantity was justified. The Draken aircraft are now being modernized and will be designated 35-J's rather than 35-F's. That is a good and wise decision."

Sven-Olof Olson gives examples of what more funds in the 1987 defense decision will mean. Besides the fighter squadron that is wanted, it is urgent to be able to expand the base and combat information systems in accordance with the plans dating from 1979. Higher financial levels would make it possible to procure more radar stations. Airborne radar is being studied, there are plans for new weapons and countermeasures, and Viggens should also be carrying the RBS-15 antiship missile. The number and quality will be determined by how much additional money the Armed Forces receive.

The Air Force commander in chief, who has experience on the Defense Staff and as commander of the South Sweden Military Command, stresses that the strength and effectiveness of the entire defense force must improve. All components of defense in depth, which is intended to harass and defeat an invading enemy as early as possible both off and along the coast, must work together.

Bases Must Be Protected

"The Army must have better brigades, and they must be in a higher state of preparedness. The statements made to that effect during the defense debate are important. The wartime units must be able to train together for combat

even during basic training. In the Army as in the air combat forces, offensive capability is of crucial importance even to a strategic defense force."

Sven-Olof Olson points out that it is desirable that the Army's units be able to protect the wartime air bases at the same moment when the aircraft are being flown to them from the peacetime wings.

An important component of future defense will be missiles. The Air Force commander in chief is following Swedish industry's prospects for developing new advanced missiles with interest, but he warns against too much confidence in the prospects for purely Swedish missiles.

New Missiles

"That would require a large economic investment--several billion kronor would be needed over a 10-year period. We don't have that economic capability today, and that is why I vigorously maintain that the Air Force must concentrate primarily on completing procurement of the Sidewinder 9-L (RB-74). That missile is a good one today, and it can be modified in the future. From the standpoint of quantity, it will enable us to meet the minimum operating requirements.

"I believe that in the future, Swedish industry will be able, either alone or in cooperation with European partners, to produce a new interceptor missile with a radar homing device--the technology most difficult to apply and the one for which it is most difficult to obtain an import permit."

Sven-Olof Olson emphasizes that Swedish missile development may also result in new possibilities for supplying the antiaircraft defense force with modern missiles to replace the Hawk. Those new missiles would be used for higher altitudes but also for shorter distances.

Sweden also has high technical capability in the field of countermeasures. According to the Air Force commander in chief, that technology must be developed further. Among other examples, the U.S. conflict with Libya and the Israeli one with Syria in Lebanon's Bekaa Valley show that modern jamming technology can effectively deceive missiles sent up against air operations. According to the press, 20 percent of the U.S. airplanes recently sent against Libya were used to knock out Libya's antiaircraft defenses by various means.

"Developments in aviation are leading to a situation in which air operations will initiate all the wartime situations we are planning for. Modern technology must go hand in hand with good training and conditions for our personnel. That is a good motto during this anniversary year," says Sven-Olof Olson, who incidentally is the same age as his own branch of the service.

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MILITARY

SWEDEN

FINNISH RESEARCHER: SOVIET U-BOAT INTRUSIONS PART OF POLICY

Stockholm SVENSKA DAGBLADET in Swedish 10 May 86 p 7

[Article by Jan Thorsson]

[Text] Lund--Compared to Sweden, the Soviet Union has gained from the submarine intrusions.

The Soviet Union has achieved several aims.

Experts and researchers agreed on that point during a conference on Nordic security policy in Lund on Friday.

"The Swedish reaction to the intrusions has been moderate," said Prof Steve Lindberg of Turku University, and on that point he was supported by Wilhelm Agrell in Lund.

A number of Nordic researchers specializing in the Soviet Union and in Nordic security policy have gathered for the 2-day conference. The topic is the Soviet Union and the Nordic Region.

Political Aims

Steve Lindberg maintained during Friday's panel debate that the Soviet leaders realized very well that the Swedish people would oppose the submarine intrusions and that the policy of neutrality would hold firm. And from the Soviet standpoint, the fact that antisubmarine defenses are being strengthened is not an unfavorable development. The objectives behind the Soviet Union's actions were not primarily military, but political, he said, and he compared the submarine intrusions with the so-called note crisis in Finland in 1962.

Parallels

The Finnish researcher drew certain parallels between those events. On both occasions, the Soviet Union had increased its influence over the Nordic Region and provoked U.S. reactions. Lindberg alluded to the Soviet naval buildup on the Kola Peninsula, which had led NATO to respond by stockpiling arms in Norway.

By violating Swedish territory, the leaders in the Kremlin were able to show the United States that they could dominate their Baltic empire without risk. But they were also able to show the Swedes how difficult it is to justify the policy of neutrality militarily when the country lies so near a big power which does not share the same view of neutrality.

More Sensitive

"Through its actions in relation to Sweden, the Soviet Union has made the Swedish state more sensitive to its interests," said Steve Lindberg.

The view that the Soviet Union had gained from the submarine intrusions was shared by Wilhelm Agrell of Lund University. But unlike Steve Lindberg, he feels that the intrusions are a strategic and military problem, not primarily a political one.

"When the Soviet submarine went aground in the Blekinge Archipelago, it was like tearing up rotten flooring and finding all the wood lice rushing around there," said Agrell. "In this case, it was never the intention that we should see them."

Political Dilemma

The submarine intrusions reveal a political dilemma for Sweden, said Wilhelm Agrell.

"The Soviet Union appreciates the political aspect of the policy of neutrality, but not the defense of that policy."

Referring to a new study, Svend-Age Christiansen of the Danish Disarmament and Security Committee maintained that the mission of the Soviet Baltic Fleet is to stay where it is and control the Baltic Sea during a crisis or a crisis situation.

It has been the prevailing opinion in recent years that in certain crisis situations, the Baltic Fleet would leave the Baltic and join the Soviet Union's Northern Fleet in the North Atlantic.

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MILITARY

SWEDEN

FRUSTRATIONS IN TANK DEVELOPMENT PROGRAM MAY CAUSE FOREIGN BUY

Stockholm SVENSKA DAGBLADET in Swedish 9 May 86 p 10

[Article by Erik Liden]

[Text] If the Swedish Armed Forces are going to get a new tank in the 1990's, there will have to be cautious investment in the meantime in the new splinter-shielded Combat Vehicle 90, which, among other things, is intended to transport infantrymen on the battlefield.

Even if appropriations are increased in the 1987 defense decision, Swedish defense finances will not allow a big investment in both light combat vehicles and tanks at the same time. When the combat vehicle project was presented in 1980-1981, the intention was that 1,500 vehicles would be purchased for from 6 billion to 8 billion kronor at the start of the 1990's.

Unsuccessful experiments with a multipurpose vehicle (the XX20) resulted in a tracked vehicle chassis that will be the basis for a family of vehicles with six or seven different missions. Antiaircraft guns, antitank guns, missile operations, and mortars are some of the applications that will be considered.

Problem Is Cost

The problem is cost. So far the OB [supreme commander of the Armed Forces] has earmarked "only" 4.2 billion kronor for light combat vehicles through 1997, while emphasizing at the same time that the tank still has a crucial role to play in the assault units--that is, armored and infantry brigades.

Current plans call for purchasing only 450 light combat vehicles, compared to the 1,500 that were planned 5 years ago. The cost comes to around 4 billion kronor, meaning that each new vehicle will cost nearly 10 million kronor initially. If the series is continued, the cost will naturally be lower.

Test Prototypes

Bofors and Hagglands are producing prototypes for road and range tests. A 40mm gun will be the main armament, although in 1980 the OB was calling for a 120mm high-pressure gun.

Light combat vehicles offering personnel protection are also being studied abroad. In the FRG and Great Britain, there are comparable alternatives at a markedly lower cost per vehicle. But the Swedish system of different combat vehicles and the demand for a Swedish profile are said to be superior. Cooperative projects are a possibility.

As far as a new Swedish tank is concerned, there is a lot to be said in favor of a direct purchase abroad because of the high development costs. The West German Leopard 2 has been offered to Sweden for just over 15 million kronor per tank. The tank is currently being produced for Switzerland and Holland, which have bought the Leopard 2 for over 20 billion kronor in all.

Quick Decision Needed

A decision to buy tanks is needed before the 1992 defense decision, which is when the OB currently wants to take up the tank question. Production in the FRG will end in 1988, and the Germans want to begin exporting to Sweden no later than 1989.

The question of the future tank has been discussed by the Defense Committee. There is a proposal to transfer the S tank to Norrland and infantry brigades, which would then have beefed-up antitank capability. The Leopard 2 could then be used instead of the S tank by the armored brigades in Skane.

Six billion kronor will buy 400 Leopard 2's. Ammunition, spare parts, and the training of technicians will add an estimated 2 billion kronor to that figure.

Besides its concentration on combat vehicles and tanks, the Army is also paying close attention to the possibilities for indirect fire in armored combat--that is, the ability to use mortars and artillery against armored targets. The state-owned FFV [National Industries Corporation] has come up with a Strix shell which, upon reaching a certain altitude over the target, triggers a homing device above the terrain.

The latter then searches for worthwhile targets. The homing device has a limited range, meaning that ordinarily, mines and so on must first bring the vehicles to be shelled to a standstill. Moving targets have time to get beyond the homing device's range. Bofors is developing the corresponding ammunition for the howitzer 77 and other weapons.

OB's Economic Level

Indirect antitank fire is also in competition with the procurement of combat vehicles and tanks. In his own economic plan, the OB has so far proposed that 4.5 billion kronor be invested in indirect fire systems between now and 1997, compared to 4.2 billion kronor for light combat vehicles. Barely 2 billion kronor have been earmarked for tanks.

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ECONOMIC

AUSTRIA

LACINA ON MANAGEMENT, PROFITABILITY OF STATE-OWNED FIRMS

Vienna DIE PRESSE in German 6 May 86 p 7

[Article by Kurt Horwitz: "State-owned Enterprises Must Make Profits--
Return to Private Ownership Via Elimination Process"]

(PRESSE interview with Minister for State-owned Enterprises Ferdinand Lacina)

[Text] Nothing has changed for Ferdinand Lacina despite the Voest crisis: The State-owned enterprises must show profits again. This also applies to the steel combine which, due the change of its directors is being granted a grace period until the end of 1990. By that time, all important production categories must show positive balances or they will be given up. The Federal Minister for Public Industries and Transport accepts the idea of a possible transfer to private ownership of state-owned enterprises only via the backdoor. He says that, whereas participation in the enterprises is nonsensical if for no other reasons than for political ones, it is quite possible for him to envisage the elimination of some individual enterprises and participation of private firms and/or financing via the money market.

By the end of June the new Voest-Alpine board of directors will have to present a plan providing for the elimination of red-ink figures in 11 important product categories. Lacina is critical of the fact that the old board of directors did not succeed in accomplishing this. He said that Apfalter and his colleagues had not envisaged any prospects of eliminating the loss balance for the Donawitz plant and the end-product industry.

Lacina is optimistic about the new board's ability to present also for the Donawitz plant a plan which would provide for maintenance of its position without any losses. The minister allows by way of a time schedule for the removal of all large loss producers a "mid-term surveyable period" of 3 years, i.e. "approximately by 1990."

Lacina places great value on individual responsibility of the managers. He said that this not only applies to the enterprises but also to the state-owned enterprise holding company OIAG. "I do not want to play the role of a super director general there," he pointed out. Despite all criticism, Lacina wants, for the time being, to let the old board of directors, headed by Director General Oskar Gruenwald, continue to function and wants to

give it as much scope for action as possible. He said: "The board of directors will have to decide whether OIAG is fulfilling its tasks as a holding company." This, he said, also applies to personnel matters, but decisions concerning this would be made only after the managers have had a certain amount of time to work under the changed conditions.

Lacina vehemently defends the composition of the OIAG board of directors. He said: "There are people in there who have an industrial reputation to lose." He said he was sure that these men, ranging from VW chief Muenzner to Plansee director general Machenschalk and to Dr. Tessmar-Pfohl in his capacity as personally responsible company member of the Sattler Textile Works, of whom he had not even known "that he has resigned from the economic federation," would not let themselves be influenced by party-political considerations.

The tasks of OIAG will also include examination of the use of credit lines by the subsidiary companies. Saying that "for state-owned enterprises the insolvency option is unthinkable," the minister confirmed the "overall guarantee" for the group. This, he said, does not apply unconditionally to holding company firms. At any rate, he said, the money institutes are in no way exempted from their duty to carry out credit examinations and the state-owned enterprises" do not have unlimited access to the money market."

But, he said, it is on the other hand quite possible for new projects of the "nationalized" enterprises to be financed via the money market instead of by budgetary means. "Tightly circumscribed projects with foreseeable profitability," he said, are in this connection more attractive for the private investor than participation in the overall enterprise. It would thus, for example, be entirely possible for him to envisage partial financing via the money market of the new electrolytical installation of the Austria Metall AG or of new pharmaceutical activities of Chemie Linz.

Also conceivable, he said, is the issuance of AUA stock shares, but it would have to be pointed out to those who are interested that an airline corporation will "to an increasing extent require real risk capital" and that a shareholder is "to a considerable extent dependent on public regulations." It is not likely that there will be any discussion concerning any change of private ownership this year, because the corporation has no corresponding means requirement.

"OIAG No Economic-Policy Instrument"

Lacina declared that OIAG will in the future concentrate on holding functions. He said that it is "overtaxed with overall economic target-setting work, such as the realization of a labor-market or regional policy." For this reason it will in the foreseeable future also relinquish its 49-percent participation in the ICD industrial settlement corporation to the ministry for state-owned enterprises.

The latter will then also examine "the efficiency of the ICD, especially also with respect to the branches in New York, on the American West Coast, and in Tokyo, as well as with respect to personnel staffing in view of the expiration of contracts and, if necessary, will also make structural changes."

ECONOMIC

BELGIUM

EYSKENS ON BUDGET CUTS, TAXES, SOCIAL SECURITY, COAL MINES

Brussels LA LIBRE BELGIQUE in French 22 Apr 86 p 2

[Guy Daloze, Pierre Loppe and Francis Van de Woestyne interview Minister of Finance Eyskens]

[Text] [Question] A recent study, drafted by the Kredietbank, states that your goal of 200 billion in savings is insufficient...

[Answer] The KB also states in one of its notes that the oil backlash and the decline of the dollar imply tremendous benefits for our economy. I personally believe that we must abide by our objective: 200 billion net in 2 years, or at least 300 billion gross. For we must not forget that the oil backlash also benefits the countries surrounding us. The public deficit will automatically come down for them too.

No Euphoria

[Question] You are optimistic, all the same...

[Answer] Euphoria is out of place. For the oil backlash is not necessarily structural. It is above all politically cyclical. The least spark in the Middle East is enough to trigger a potentially dramatic situation. It must be reiterated again and again that we have a structural handicap when it comes to expenses.

If all the comparative studies were gathered together, our public expenses for the main sectors would be noted to exceed by 5 to 15 percent the average for Germany, the Netherlands and France. Monetarily, we are already gaining on the strong countries of the Community. We must now adjust our budget goal to the austerity of our monetary ambitions.

[Question] From the standpoint of revenues, don't you fear a new unpleasant surprise like in 1985?

[Answer] Our estimates are very cautious. We anticipate 1.5 percent economic growth and 2.5 percent inflation for 1986 and 1987. I believe that in 1986 and 1987 there will be a little less inflation and a little more economic growth than anticipated. Oil fluctuations could give us an additional economic

growth of at least 1.5 to 2 percent. A 1 percent economic growth amounts to some 15 to 20 billion.

In addition, the decline in interest rates must also be taken into account. We are not irrationally devoted to figures-related goals. We must therefore maintain our course and adjust it downward. The budget situation remains very troublesome. The oil backlash offers a unique opportunity to facilitate the move without falling into the effects of deflation. It is therefore now or never.

Interdependent Through Thick and Thin

[Question] Two weeks after the Oostmarsum readjustment, have you all your abatements?

[Answer] No. By obtaining the reevaluation, we reinforced the pressure on the budget conclave; on the need for all the spendthrift ministers to assume their responsibilities; and, above all, on the majority so that it remains interdependent through thick and thin. It also puts pressure on the social and economic partners. The failure of the budgetary operation or a non-credible result would quickly have its retribution abroad.

[Question] The Belgian franc is once again a little weaker...

[Answer] Let us not forget that we wanted to appreciate this readjustment by lowering interest rates. Belgium assumed the risk of heading this movement. And it is not the end.

[Question] How far down can interest rates decline in Belgium?

[Answer] I believe that interest rates have not yet reached their bottom. If we produce a credible budget with 200 billion in savings, we will bring about a detente on the capital market. There is currently a tremendous amount of liquid assets. Those who have money, and institutions in particular, are wondering where to place it...

[Question] What would be the ideal discount rate following a credible budget?

[Answer] I believe that discount rates can fall below 7 percent. We are going to float on the capital market a RTT [Telegraph and Telephone Administration] loan whose issue rate will be 7.25 percent. That remains to be seen.

It seems to me that, in the long run, a 6 percent rate, and even less, can be a normal rate for capital markets.

New Golden Years

[Question] It would be going back 20 years...

[Answer] I am convinced that, if oil prices were to remain steady and the dollar cease to rise, we would recreate in the trilateral world (Europe, the United States and Japan) conditions which would place us once again in the situation of the '60s. With the impetus of the third industrial revolution, there could be hope for a new decade of growth, if we did nothing foolish and we succeeded in avoiding the financial collapse experienced by a series of Third World countries.

[Question] There has been some criticism of the new zero-coupon loan recently floated by the Treasury.

[Answer] It involves a two-stage 200-million-mark loan. The "zero bonds" only affect 100 million. It is somewhat of an experiment. This technique is widespread abroad. We must make innovations from time to time to see how the market reacts. I was told that certain financial institutions were somewhat offended because they were not involved in this operation. I cannot constantly serve everybody.

[Question] Does this mean that you will duplicate such an operation?

[Answer] No, no. That is not what I am saying. I am aware of the inconvenience of the formula, namely, the accumulation of a huge financial hoard. If such a formula were ever chosen for the Belgian capital market, it would be absolutely necessary for the Treasury and the budget to create a depreciation allowance, provided for on an annual basis. That is the least that can be done. The "zero bonds" procedure does not seem to me to be the suitable instrument. It is an experiment which must remain marginal.

Reduce the Deduction at the Source

[Question] In order to manage the debt, the governmental declaration states that it will be possible to launch new financial items, in conformity with market laws. Which ones to you favor?

[Answer] There are at least 50 listed in publications that I have here.

A distinction must be made among the public debt holders. During the recent subscription, the public's contribution did not exceed 10 percent. On an average, the public only holds 20 percent of the long-term debt. It is, incidentally, a disturbing sign. The general public is turning away from state flotations. This poses the problem of the deduction at the source and of the capital flight. I hope that, within the framework of this or subsequent budget operations, we can create a budget margin capable of resolving this problem.

I do not favor the cancellation of the deduction at the source. I find that personal income should also be taxed. But I, along with many people, am aware that the 25 percent deduction at the source was a mistake. It made our market somewhat less competitive.

[Question] It will therefore be necessary to lower it...

[Answer] Yes. The deduction at the source could be lowered by at least 5 percent. The 80 percent of the debt held by the institutions must then be reviewed. The governmental declaration alludes to arrangements with the institutions.

Gold Mines

[Question] That is to say?

[Answer] Let imagination run loose! The profitability of financial institutions also presents a problem in Belgium. It should not be believed, for example, that insurance companies are gold mines. Such is not the case. If you analyze the balance sheets of the insurance companies, you will realize that their profitability is due to a large extent to the income derived from their real estate investments but that, as a rule, their insurance business shows a deficit. It is an extremely serious structural problem for our insurance companies which must face up to extremely steep competition on the European market.

The intermediation margin of banks is extremely small in Belgium as compared to neighboring countries. The profitability of our banks, their profit expressed in pertinent assets, is currently 6.3 whereas, abroad, it ranges between 8 and 9.

Such an operation must be consistent with market processes. The profitability of these institutions must be taken into account. I believe that formulas must be found within these constraints. Loans at 13 and 13.5 percent were floated 3 or 4 years ago and, today, they will be floated at 7.25 percent. I believe that this shows that there is a margin allowing certain negotiated transactions.

This said, we are not going to reduce the deficit to zero. There always will be capital expenditures. All the rest is either loose talk or deception.

Signal for the Stock Exchange

[Question] And what can be done for the Stock Exchange? The establishment of a saving-pension system was announced...

[Answer] It is important to revitalize the Stock Exchange: The financing of enterprises through risk capital is, as a matter of fact, essential. Moreover, it is preferable, and even crucial, for workers to be able to work in enterprises with balanced balance sheets and ample resources of their own.

A substitute for Royal Order No 15 is therefore needed. Unless it is extended, but De Clercq was against it to avoid maintaining the Stock Exchange in a state of continual and artificial activity. During the formation of the government, we agreed to merge two draft bills, one Social-Christian in origin, the other liberal, for the purpose of offering an incentive via the saving-pension system. Moreover, I dispute the validity of the statements according to which it would involve a liberal initiative opposed by the CVP [Social-Christian Party]. As far

as I know, Dupre and Cooreman still belong to the CVP and this principle could already be found in our electoral platform.

I negotiated for 3 weeks with Verhofstadt and we found a technically viable solution which is subscribed to by financial as well as credit institutions, saving banks and insurance companies. The budget is the only item missing (not very large, some 2 billion), but we can start gradually, quickly giving a signal to the Stock Exchange being the most important thing. The problem will be swiftly settled if there are no political or ideological objections.

The bill--very short, two or three articles--can be passed before the end of the year to avoid having a break between the old and the new system. Moreover, since it involves a tax deduction system based on the 1987 imposable income, a retroactive provision may be eventually scheduled so that the measure covers 1986.

The main thing, for the time being, is to protect savings against monetary erosion. And we cannot fail to note that the large so-called social savings banks, close to the leading trade unions, also set up very successful joint investment funds which absorbed billions and billions, thanks to Order No 15.

[Question] Do you exclude a continuation of this order should, for some reason, voting on the law by the end of the year be delayed?

[Answer] No, and there is even a rule which combines both the law and the order. We could conceive that the bonds purchased under Order No 15 would be deposited into newly-formed saving-pension funds. But, I am insistent on this point for economic as well as social reasons, the two systems must be quickly merged.

Taboos and Totems

[Question] It looks as if the Social-Christians are being very discreet about economic matters and that it is principally Verhofstadt who is making shock proposals.

[Answer] The minister of budget did a remarkable "task": He mobilized all the finance inspectors and issued, department by department, an impressive packet of proposals. I, who was minister of budget in 1978, must add that none of these proposals surprised me. These ideas have been circulating among the finance inspectors for a long time.

However, the political climate has changed: There previously were masses of taboos and as many totems (it would be useful to read Freud's book once again), but now, only a few remain and they soon will be lifted. That is because no one says "no" even if, sometimes, there are counter-proposals giving the same budget return with a better procedure: The path of least resistance must always be chosen. It is the best climate I have known for the past 10 years because everyone is aware of the seriousness of the situation. We must obviously wait for the third stage, that of more political arbitrations and sharper discussions.

[[Question] When will the citizens know their fate?

[Answer] In the first two weeks of May, I hope. I am opposed to "fatal delays," but we must not hurry dangerously. It is a delicate operation and we must not act like bulls in a china shop.

Social Security and Income

[Question] And how much will be removed from each Belgian's pocket?

[Answer] We cannot continue to treat 10 million Belgians like 10 million social cases! Some people, beginning with certain trade unions, consider Dehaene's statement sacrilegious; he wants to link social security to income.

In a budget reform of such extent, it is obviously necessary to take into account social justice and protection of the weakest; in my book, "The Source and the Horizon," I referred to criteria for the allocation of social benefits which, among other things, took income into consideration. We are not going to continue giving somewhat blindly, social benefits to the whole population. Already today, a series of criteria are applied: The vital minimum granted by the CPASs [Public Centers for Social Aid] not only takes income into account but also other factors making up the means of existence.

Other criteria operate for the VIPOs since we were able to reduce their numbers. There was a time when granting a pension to the self-employed was tied to an investigation of the means of existence.

Today's discussion is therefore not so revolutionary, but maybe Dehaene placed too much emphasis on the income criterion. Other criteria must be taken into account, the important thing being that the social benefits be much more directed to those who really need them.

How should they be defined? We cannot prevent income from being taken into account, but--and maybe here Dehaene was not sufficiently explicit--a much more selective application of social security must open the way to the lowering of fiscal pressure. You cannot, at the same time, maintain a tax system of excessive progressive increases (it can, with the mutual aid contribution, reach as much as 85 percent) and set up a system of excessive decreasing scales of benefits. Therefore, the budget operation must also permit to humanize, "debarbarize," the tax system and return to rates that once again will motivate the citizens and deter fraud.

[Question] With priorities like, for example, this "marriage tax"?

[Answer] To be sure, "splitting" and the removal of cumulative charges are important. The corporate tax must also be revised by, straightforwardly, removing a series of benefits and complicated reductions, but reducing the face tax which is the one the investors look at.

More social flexibility is also needed to make unskilled labor less expensive, which would generate more jobs. In addition, why not create a "labor dividend" which would be the counterpart of the capital dividend and would be tied to profit sharing, with a particular tax status: Should those who work well in a productive enterprise continue to be penalized?

Neither a Hypocrite Nor a Demagogue

[Question] According to you, the climate is therefore favorable for a tax reduction?

[Answer] Caution. We must first see what the outcome of the ongoing ministerial discussions will be. The first priority remains the budget reorganization. By no means would I want to fall prey to hypocrisy or facile demagoguery. Belgium must go back to developing its economic potential conditions comparable to those at the end of the '60s must be recreated; and only then must humanizing taxes be considered.

[Question] Is it the first time since you have been in the government that the opportunity to reduce the fiscal pressure has appeared to you so clearly?

[Answer] Yes. On condition, however, that Belgians follow the government in its proceedings and logic. If they begin breaking up the place because certain state expenditures are being cut, it is the end. Belgium would find itself increasingly dragging behind the European Community. It would set itself apart, be forced to use makeshift measures, and outside pressure would gradually increase. I am already struck to see the extent to which Europe, therefore Belgium, is becoming impoverished.

Not Reactionary

[Question] Among the savings being considered, some have thought of replacing unemployment compensation for a youth who has never been employed, with either a family allowance, before he reaches the age of 21, or with the minimex, after he reaches 21. Do you support this measure?

[Answer] Nothing is final. Everything mentioned came up during a "brainstorming" session. Youth unemployment is, to be sure, a tragedy. But in a civilized country, mutual family aid should nonetheless be able to come into play.

When I see children put their old parents in hospitals so they can go ski, I say to myself that there are excesses. This said, I do not find the idea you mentioned in the least reactionary.

Another example: The tuition increase in universities. There is talk of a 1,000 franc increase, followed by an indexation, whereas, today, it amounts to 10,000 francs. How many young people know that Belgium is among the countries where tuition is the cheapest and that, in the United States, it takes 200,000 to 300,000 francs, sometimes even 500,000 francs or one million, in order to go to the university? Is it sufficiently known that a young person enrolled in a doctorate-in-medicine program costs society one million annually? Would it be a scandal to increase tuition slightly and change the scholarships to student loans? Of course not.

These same students, who object loudly in the universities, do not make such fuss when it comes to paying tuition for getting their driver's licenses.

There is a reversal of the value scales which I find disturbing: School or health care expenses should be free. Frankly, it is too much.

Cancel "Small Risks"?

[Question] Do you believe, like some of your colleagues, that the "small risks" hedging must be canceled?

[Answer] I noticed that the self-employed do not enjoy this privilege and no one is raising a fuss about it or making a revolution. I wonder if the purchase of everyday medicine does not come under the heading of consumption expenses.

I am not saying that canceling "small risks" is the solution, but it is clear that it is necessary to initiate more selectivity in the reimbursement of health care services. We cannot continue to treat all patients the same regardless of their economic situation. The cost of a hospital room, without care costs, exceeds in many cases the cost of a room in a luxury hotel; it is unreasonable.

Conversely, I believe that, if it is advisable to initiate greater selectivity in social security matters, it is also necessary to think about those who have only the bare minimum. More people should be able to benefit from it. Selectivity dictates a downward corrective.

The Law Remains the Law

[Question] A small sentence attributed to Mark Eyskens and published by LE SOIR triggered off a serious conflict in the Limburg mines. Did you or did you not declare that three out of five wells needed to be closed in the KSs?

[Answer] Apparently, it is no longer possible in this country to hold a confidential discussion among five ministers! Here is the explanation. The finance inspectors formulated six scenarios concerning the problem presented: The maintenance of either five, four, three, two, one or zero wells! Everything is computed costs-benefits. We have not yet reached a solution.

We passed the 5 March 1984 law with difficulty. Much persuasion was needed to convince Cockerill-Sambre. In Wallonia, I ended up being disliked as a minister of economic affairs, but what we did was, I believe, necessary. We said that the law would have to be implemented as long as it was not amended. This remains true. I regret that, when it passed, the Flemish media never emphasized sufficiently the enormous reorganizing effort carried out at Cockerill-Sambre.

[Question] You said that the law must be implemented as long as it is not amended. Will it be amended some day? Financial appropriations are running out for the coal fields...

[Answer] Changing the law would mean an agreement among the communities. I see no objections, but I shout a warning. It is the famous waffle iron placed once again on the table. What you grant one region must be granted to another.

Neither the Flemish community, nor the central state, can suffer a 13 to 15 billion deficit a year.

Additional Financing

[Question] Despite the reorganization being considered, coal fields appropriations will remain insufficient. Others, for shipyards or Tubemeuse, will also be insufficient...

[Answer] Like for Cockerill-Sambre, a transition period must be foreseen for the Limburg mines. The social aspects of things must be taken into account. Limburg must pull itself together as it did 20 years ago. The Winterslag and Waterschei merger is a wise move. Additional financing must be scheduled without encouraging the practice.

[Question] You therefore support Aerts, the Limburg secretary of state for energy, who requests additional financing for the KSs?

[Answer] No, no. The ways and means and responsibilities of this additional financing must be weighted. It is necessary to hold consultations with officials at all levels, including Europeans, and constantly keep in mind the concern for budget austerity.

Building: Context to Be Changed

[Question] The building trade is also awaiting measures, although of another nature. You supported the maintenance of the TVA [Value-Added Tax] at 6 percent until the end of the year. What do you think, at present, of the increased tax deductibility being considered?

[Answer] I continue to support selectivity for the TVA, coupled with a reduction of the deductibility of interest charges. I have noticed that, since the round table, lower rates, and in particular the mortgage rates, have played havoc with the data of the problem. We are also waiting for the sector to make a serious effort. We have noticed that, often, lowering the TVA at 6 percent has directly benefited the industries which raised their prices.

Ah, If I Were Balladur!

[Question] When we see the swiftness with which the French government made its first budget choice, don't you wish you were in Balladur's shoes?

[Answer] It is true, it leaves me musing. Here, we are criticized in the worse way because of special powers; people complain loudly about dictatorship. The French left--and now the right--thought about it also. Here, it comes under the *Commedia Dell'Arte*. It proves that the reform of our institutions is not completed...

[Question] Hence the apparent inability of the government to move 6 months after the October elections.

[Answer] Belgium is a much more complicated country than France. It is an exaggerated case.

ECONOMIC

DENMARK

COUNCIL OF ECONOMIC ADVISERS SEES END OF TRADE DEFICIT BY 1988

Copenhagen BERLINGSKE TIDENDE in Danish 22 May 86 Sect III p 3

[Commentary by Frank Dahlgaard: "Possible to Achieve Balance With Foreign Countries in 88"; first paragraph is BERLINGSKE TIDENDE introduction; passages within slantlines published in italics]

[Text] The sages predict a much steeper decline in the balance of payments deficit than government economists--the government and the sages agree that developments in unemployment will be gloomy.

The deficit in the balance of payments with foreign countries will decline steeply in 1986 and 1987, and during 1988 it is absolutely possible that Denmark can achieve the desired balance between currency income and outflow

There is thereby the prospect that the government's primary goal of the economic policy--equality in the payment balance with foreign countries in 1988--can be fulfilled.

That is the new "Sages' Report" from the chairmanship of the Council of Economic Advisors--the three so-called sages--who point out that in the coming two years a marked reduction in the foreign exchange deficit can be expected. Despite disappointing developments in exports, the sages actually do not believe that there is a basis for the existing "balance-of-payments-pessimism."

It is not just this picture that the confused and confusing public debate in the wake of the sages' report has created.

At the same time as the release of the sages' report, government economists have published their own annual budget report. It contains for the next few years the same figures and judgments as the government put forth in March in connection with the "Easter package" (Pamphlet Nr.49).

A comparison of the two new reports about the Danish economy shows, among other things, that the sages predict a steeper decline in the balance of payments deficit than does the government.

The Right Way

Both the sages and the government expect a smaller deficit in the balance of payments this year than last year's deficit of 28.4 billion kroner.

The sages predict a deficit in 1986 of fully 22 billion kroner compared with the government's estimate of 18 billion kroner. In 1987, however, the sages expect the deficit to be reduced to only 11 billion kroner while the government expects a 1987 deficit of 13 billion kroner.

So the sages predict a reduction of the deficit of fully 11 billion kroner from 1986 to 1987, while the government economists expect an improvement of less than half of that.

Against this background it is not fair that politicians use the sages' report as a torpedo against government optimism. /The reality is that the sages are expressing greater optimism about the balance of payments than the Schluter government itself does./

The background for the sages' confident view of the balance of payments is not merely falling oil prices, dollar rates and foreign interest which comes to us from abroad. The sages predict for 1987 a greater slowing in the growth of private consumption than the government economists estimate, and thereby they also assume less growth in the import of consumer goods next year.

In addition the sages expect a greater damping of growth in business investments this year. For 1987 they anticipate a decline in investments, which the government does not expect. Obviously, the lower investment activity is, the fewer machines will be imported from abroad.

Finally the sages expect that tax reform and a low rate of inflation will mean a decline in homebuilding next year.

That also means less activity and thereby less import.

Growing Unemployment.

Provided the current economic strategy can be maintained, the sages believe that the balance of payments problem is on the way to solving itself.

In return it looks gloomy for the other large socio-economic problem: unemployment.

The sages anticipate increasing unemployment through both 1986 and 1987. Reduction of working time at the start of 1987 can, however, make a temporary inroad in the numbers of unemployed.

The sages thereby anticipate that the decisive fall in unemployment over the past two years will be replaced by an increase.

If the opposition really desires to find a foothold for pessimism in the new sages' report, they should concentrate on unemployment and not on the balance of payments.

The sages anticipate an average of 232,000 registered unemployed /on a full-time basis/. Calculated in accordance with the unemployment concept utilized by Denmark's Statistics and government economists, this corresponds to 240,000 unemployed.

Obviously this is more than the government's estimate of an average of 220,000 unemployed per year.

Since unemployment (seasonally corrected) at the beginning of 1986 declined to 220,000 registered unemployed, the sages' prediction means that unemployment will rise to 260,000 by the end of the year. If it does not, the /average/ 1986 unemployment will not reach the stated 240,000.

Unemployment Up, Down and Up

In their report the sages themselves say that their prediction involves a rise in the seasonally corrected unemployment in the coming year.

/The figures/ give a nuanced picture of the development of unemployment which is behind the dry averages in the sages' report.

Last year unemployment peaked at over 280,000 registered unemployed. That happened one-half year after the four-party government came into power.

The average unemployment in 1983 of 283,000 is the highest unemployment in this country in the postwar period.

In 1984 and 1985 unemployment fell steadily and persistently down to 220,000 at the beginning of this year. Provided the sages are correct in their latest prediction of /average/ unemployment this year of 240,000, /this means a growth in unemployment (seasonally corrected) of 40,000 in the next 10 months/.

Even though average unemployment for 1986 is estimated at 240,000 compared with a 1985 average of 251,800 it means a marked growth in unemployment this year if the sages are to be believed.

Shorter Working Time

For 1987 the sages anticipate an average unemployment of 243,000 persons (235,000 on a full-time basis), and we can expect growing unemployment in that year also.

Reduction of weekly working time from 40 to 39 hours (2.5 percent) from the beginning of 1987 will, however, greatly increase employment in the transition phase, bringing unemployment down at the beginning of 1987. See figure.

The sages expect that shortening the working time will mean a need for 8,000 more public employees, and in the private sector there will be an increase in employment of about 20,000.

Thereby unemployment will fall until next spring, but only temporarily--and from a higher beginning than now.

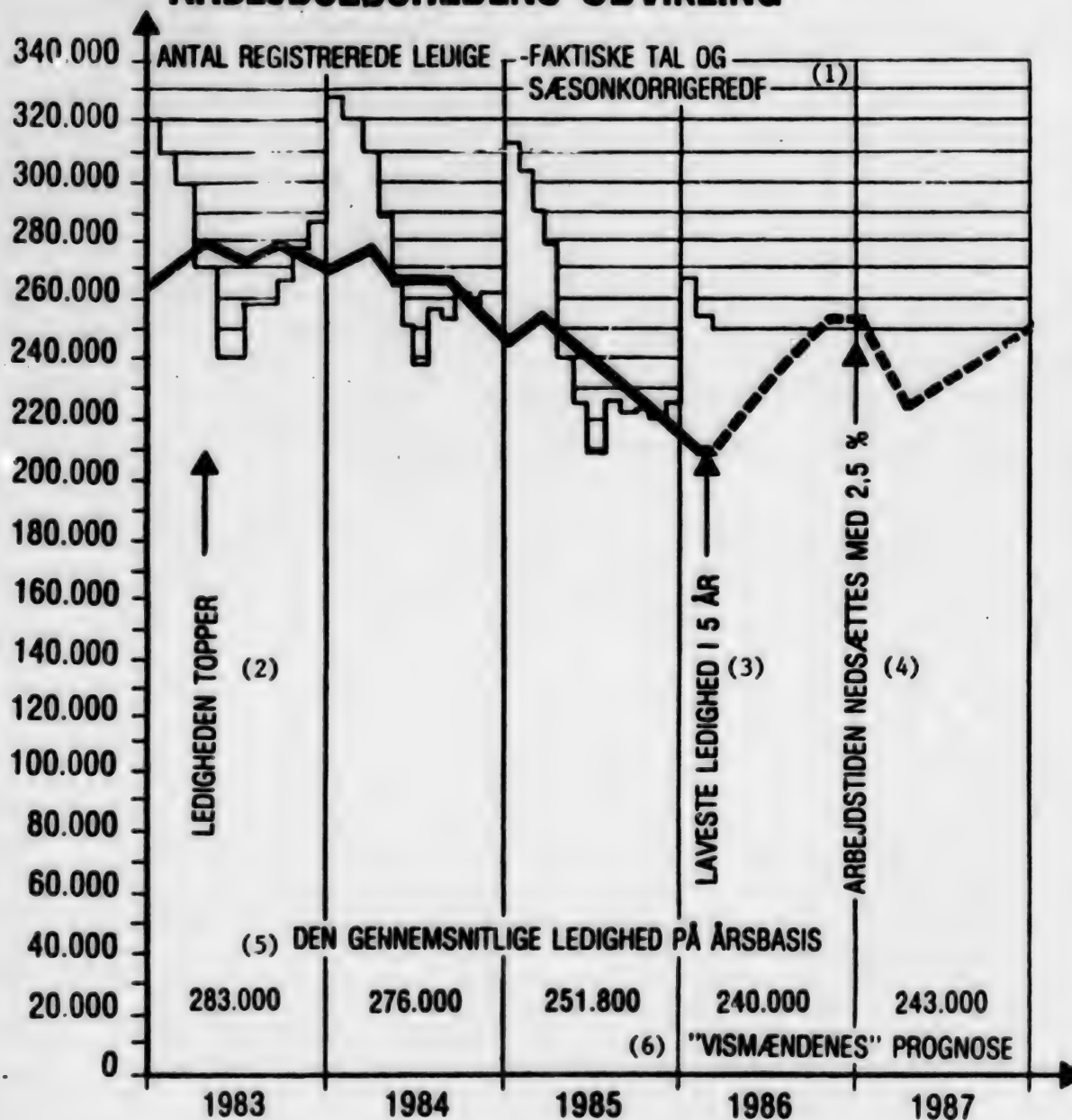
By the end of 1987 the sages expect registered unemployment to reach 258,000 people (250,000 on a full-time basis).

Provided reduction of working time does not give the anticipated increase in employment, unemployment by the end of 1987 will reach 260,000.

Government economists are also pessimistic about unemployment figures in the coming years. Only if Danish wage increases are reduced to about 3 percent per year so that competitive ability is improved will it be possible to hold unemployment unchanged at the current level of about 220,000

It is the rising productivity and the falling economic activity during the boom of the past couple of years which is the basis for the economists' gloomy predictions about unemployment.

ARBEJDSLØSHEDENS UDVIKLING



Caption: Trends in Unemployment

- Key: (1) Number of registered unemployed - actual and seasonally corrected figures
- (2) Unemployment peaks
- (3) Lowest unemployment in 5 years
- (4) Working time reduced by 2.5%
- (5) Average unemployment on an annual basis
- (6) "The sages'" prognosis

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ECONOMIC

ICELAND

FINANCE MINISTER THORSTEINN PALSSON ON DEFICIT, TAXES, TRADE

Reykjavik MORGUNBLADID in Icelandic 13 Apr 86 pp 22-23

[Interview by Bjorn Bjarnason: "Decisions Have to Be Made at the Right Moment in Politics"]

[Text] An interview with Thorsteinn Palsson, chairman of the Independence Party and minister of finance, about wage agreements; budget deficit; taxes; interest rates; restraint in government operations; sale of government owned companies and the government cooperation.

Now, half a year has passed since Thorsteinn Palsson, chairman of the Independence Party, became minister of finance. The preliminaries that led to his taking the ministerial post were considerable. More than once he was reprimanded for not having pushed hard to get a ministerial seat. In a MORGUNBLADID interview in May 1984 he said that he had answered the questions about new men in the government so often that it ought to be clear to everybody that he did not consider it timely to contemplate names at that stage. "Speculations on the organization of the ministerial seats are always popular but the tasks of governments and the progress and implementation of policy issues are the most important."

Everybody vividly remembers the solution of this matter. On 7 Oct 1985, Geir Hallgrimsson proposed at a meeting of the parliamentary group of the Independence Party that he would resign as foreign minister at the turn of 1985/1986 and that Thorsteinn Palsson would immediately take a seat in the government. The proposal was approved and then all the Independence Party ministers switched offices and Thorsteinn Palsson took over the Ministry of Finance from Albert Gudmundsson. Geir Hallgrimsson left the foreign ministerial post in January and Matthias A. Mathiesen took over from him. Hallgrimsson has been appointed a director of the Central Bank as of 1 September this year.

Activities like these are unusual in Icelandic politics. Thorsteinn Palsson has withstood the upheaval. All those who reflect on Icelandic politics ought to realize that he does not direct his efforts where the target is easiest. His political career has been so rapid that the public has barely had time to absorb all his qualities and faults as a politician. Palsson has not yet been a whole term in the Althing.

Along with his law studies (he graduated 1974) he worked as a political reporter for MORGUNBLADID; in 1975 he became the editor of VISIR when the ownership was split and Sveinn Eyjolfsson, managing director and Jonas Kristjansson, editor, founded the DAGBLADID. VISIR survived while Palsson was at the helm. In 1979 he became the managing director of the Confederation of Icelandic Employers. He left that job in 1983 when he decided to run in the primaries for the Independence Party in the Sudurland electoral district where a split prevailed because of the support of one party member, Eggert Haukdal, with the government of Gunnar Thoroddsen. Palsson got the first seat on the list and the party had successful election results in April 1983. When it became clear in the summer of 1983 that Geir Hallgrimsson would not run for reelection as chairman of the Independence Party in the fall of 1983, Palsson decided to go for it; he turned 36 on October 29 that year. I remember from these months that many considered it inadvisable for the Independence Party to select the former managing director of the Confederation of Icelandic Employers as chairman. Also, many people were of the opinion that it is not convenient for the chairman of the Independence Party to represent another electoral district in the Althing than the Reykjavik electoral district or the densely populated Reykjanes electoral district. Finally, I will mention those who say that it is intolerable in the long run for the chairman of the Independence Party to be a minister of finance; nobody who holds this office can involve himself in the campaigning required in contemporary society.

Judging from this list, it becomes clear that Palsson has not sought out quiet jobs or looked for work where he is firmly implanted. In this respect, Palsson is aggressive or cool, in the sense that he does not let many things deter him. On the other hand, his speeches and writings on festive occasions show that he attempts to wrap his cause in warm coverings, so to speak; his words represent sensitive feelings: "It can be said that it has rained in Icelandic politics of late and muddy waters have emerged. But grass also grows in the uphill area of politics and lets direct our vision there," he said at the conclusion of his opening address at the Independence Party National Congress in 1985 and he referred to a lyrical fragment of a story by Jonas Hallgrimsson. In other respects, his speeches have the same characteristics as do the speeches of other Icelandic politicians; they mostly evolve around economic affairs and financial affairs.

New Look

The office of the finance minister has gotten a new look after Thorsteinn Palsson took over. He had a heavy conference table removed from his office; this table had been the focal point in the office on the first floor in the northwestern corner of Arnarhvoll [Foreign Ministry building]. In its place is a coffee table; the formal looking chairs have been replaced by easy chairs covered with tan leather. The office has a lighter look than before, and when I came there on a Friday afternoon some time ago, the door into the hallway was open which is something I am not used to from ministers. The occupant himself sat there in his shirt sleeves. When the pictures were taken by the experienced MORGUNBLADID photographer Olafur K. Magnússon, I said to him that photographers previously had to work hard at being allowed to take a picture of the ministers without their jackets; now I and Olafur K. Magnússon had to

ask Palsson to put on his jacket in order to get the traditional ministerial picture.

In a television program recently, it was felt that Palsson tried hard to answer the reporter's questions without saying much. Many people said that in a very short time, he had adopted the traditional behavior of the skilled politician to say as little as possible in as many words as possible. He himself feels that this is a wrong allegation which his interviewer is unable to defend.

Depends on the Dollar

In the beginning, the conversation was directed towards the new wage agreements. As others who were involved, the finance minister is fully cognizant of the fact that risky decisions have been made. "The dollar will make it or break it," he said. The agreement is founded on the basic presupposition that the average exchange rate of the krona will remain stable. "I am, of course, a little bit worried because of the vacillating dollar exchange rate. Those who ought to know best are unable to assert what the direction is in this matter, however, they do say that they do not expect a collapse. Our endurance in this respect will be decided from many quarters, for example, the outcome of the fish sale negotiations with large buyers on the U. S. market. We may face the situation that the price of imports will rise and the price of our exports will become lower. Such changes can change the presuppositions for the wage agreements and then it would have to go before the arbitration committee according to provisions of the wage agreement. Even though we have to be prepared for everything, I am convinced that this attempt can succeed."

Budget Deficit

After the contracts had been negotiated, the finance minister reported that there was a foreseeable budget deficit in the coming years. Then Prime Minister Steingrímur Hermannsson indicated at a meeting of the Progressive Party Central Committee that he would not accept a budget deficit and new revenue would have to be acquired to bridge the gap. "I think it likely that there will be a budget deficit for the next 2-3 years," said Palsson, "efforts will be made to bridge the gap with domestic borrowing. I am not in favor of raising general taxes. On the other hand, an overall revision of the government's revenue system is now being undertaken. Ideas about a new tax system will be introduced later in the year. If a decision is made to levy value added tax, it will come into effect one year after the law has passed. What is important is that the deficit be settled during several years and that it be financed domestically."

[Question] Subsidies will not be considered?

[Answer] If that refers to pen stroke cutbacks, it will not be to a great extent.

[Question] Isn't the lowering of interest rates held back by the Treasury seeking as much credit domestically as has been the fact? By doing that, doesn't the Treasury aim too high?

[Answer] Budget deficit causes real interest not to decrease as much as it otherwise would. Here the finance minister is referring to the fact that the Treasury's desire for domestic credit increases the demand in the credit market which makes money more expensive than it would be otherwise. The answer is simple, he adds: Which do people prefer, higher real interest and lower taxes or higher taxes and lower real interest? I am of the opinion that general taxation should not be increased.

[Question] Now you have raised various specified taxes, such as the airport tax and the fee for public service. How does that conform with the policy of unchanged taxation?

[Answer] People must agree to channel the collection of public fees in such a way that the consumers of public service will themselves pay the greatest part for it. It is, for example, natural that the users of a new air terminal participate to a greater extent in repaying the loans incurred for its construction rather than those who do not use the terminal. Automobile owners will pay the cost incurred in operating the State Motor Vehicle Supervision Office but not those people who do not own an automobile.

Restraint in Spending Systems

[Question] You have said that it is necessary to check on large spending systems in the government operation. What are you planning in that area?

[Answer] This refers to large expense factors, such as education affairs and health and insurance affairs. If the intention is to avoid a greatly increased tax collection, it will be necessary to better utilize the funds that go into these sectors. Most people agree that it is possible. But this is a complicated task; no methods that are identified with pen strokes will be applied here. The objective is to avoid increased tax collection without reducing social services; utilize the funds better and make the system more effective.

[Question] You have also introduced your ideas about framework budgets. What does that involve?

[Answer] In brief, this means reduced centralization of public funds. Decisions and responsibility for dispersing the funds which are allocated to each ministry will be in the hands of the ministries themselves without them having to seek as much from the Finance Ministry as now is the case. The Finance Ministry should therefore be able to concentrate more on overall finance management than it now does. The profession ministries must not become like some type of extension cord for interest groups. In order to avoid that, they will in some instances need more financial responsibilities.

Restraint in operation will not be achieved with total centralization. The principles that apply to this are no different than principles that apply elsewhere in government operations.

To a certain extent, these are working procedure regulations. The introduction of these regulations to individual ministries has already been put in motion. Perhaps it will be necessary to legislate this to make it appropriate. This will take some time and my intention is that this change will be implemented in several phases.

Property Tax

[Question] During the bargaining negotiations there were ideas afoot to raise the property tax by 40 percent to strengthen the status of the treasury. What was your position on that?

[Answer] That is correct, there were ideas about this, but they were never formally proposed to us, the ministers. The negotiating parties realized that I was opposed to them. The reason is that people have already paid taxes on the income that has made property formation possible. And it must also be taken into account that the division of property in the society is relatively even. It is therefore impossible to obtain considerable revenue from property taxation without taxing households with average income.

[Question] At a closer look, isn't't there a majority in the Althing for increased property tax?

The Progressive Party is not against having this tax raised, nor is the Social Democratic Party which wants to raise it by 300-500 percent, and the People's Alliance have not been in a different boat than the new democratic leadership with respect to raising the property tax.

[Question] Is this one of the main points of difference in politics these days?

[Answer] Of the large parties, the Independence Party is in a class by itself on this issue. That is nothing new. The position on property taxes has for a long time marked the difference between Icelandic political parties.

[Question] Now savings are tax free but not capital that is invested in shares. Is it natural to draw this line of difference?

[Answer] In general, it must be the objective to have as little difference in taxation depending on the form of property or how the income is derived. On the other hand, it must be told as it is that in my opinion it has not been irrational to stimulate savings by tax measures. We must put the main emphasis on stimulating domestic savings. During the term of the current government in office, changes have been made in the tax laws to stimulate the public to purchase shares.

Sale of Government Owned Businesses

[Question] If the budget deficit is temporary because of the pressure put on the state to achieve declared objectives in other spheres of finance administration, is it not possible for the Treasury to get revenue by selling government owned businesses that are profitable as, for example, the National Power Company and the Post and Telegraph Administration?

[Answer] I think that both these companies have market value. I think that it is a matter of course to investigate whether it is possible to sell them. That does not mean that they should be sold, but the studies should be conducted. The same question might also be asked about various government institutions, such as the Government Purchasing Department and the Icelandic State Fish Quality Control Supervision to name a few.

Although it is a separate issue, I want to use the opportunity to point out the necessity that we do not reject foreign investment. Concerning that I have, for example, suggested that foreign banks share the credit operation here.

Utilization of Appropriations

[Question] In a television program in which poverty in Iceland was discussed, Adalheidur Bjarnfredsdottir, chairman of Sokn [Union of Women Assistants in Hospitals, etc.] was of the opinion that it was not necessarily imperative to increase the cost of living and insurance appropriations, but the most imperative measure is to utilize the funds better. Do you agree with this?

[Answer] I am of the opinion that all ways should be explored to meet the needs of the people who live under the poorest circumstances by changing the system to improve their living conditions. Those who know this system best, as does Adalheidur Bjarnfredsdottir, think that the funds are not utilized to the utmost. This is a sensitive and touchy issue. The organization of these affairs have often been disputed in the political struggle. Those who place themselves left of center in politics have been of the opinion that everybody should sit at the same table; those who have less should not be treated differently. Bjarnfredsdottir's ideas deserve full attention.

But as I said, this is a problematic matter in which feelings must be considered and humanity must be demonstrated which is something that an expressionless system will probably not do very soon.

Government Cooperation

When the conversation turned to the political struggle in the coming weeks, Palsson was obviously of the opinion that now those who govern the country should leave the stage for the people who are campaigning for the local elections. I asked his opinion about Steingrímur Hermannsson's [prime minister] statement that the government cooperation might break at any time. Palsson said that this statement had its roots in problems within the Progressive Party and not that there were any particular matters of dispute that jeopardize the government cooperation at this time. "The left wing of

the Progressive Party will always be loud and restless when the party is cooperating with the Independence Party; the same can be said about the right wing when the Progressive Party is in a leftist government."

In fact, it has only happened once that the Independence Party and the Progressive Party have been in coalition through a whole term; that was during the government of Geir Hallgrímsson during 1974-1978. Despite Steingrímur Hermannsson's statement, there are all indications that the government aims at sitting through the term which will end in one year from now. On the other hand, it is clear that the chairman of the Social Democratic Party and at least Throstur Olafsson in the People's Alliance are seriously courting the Independence Party. Pálsson has opted to say that he plans to lead the Independence Party to the next parliamentary elections without obligations of cooperation after the elections--on the other hand, he is obviously of the opinion that the Independence Party should have the leadership in government after the elections; the great demand for cooperation with the Independence Party makes it possible for the chairman to make conditions of this kind. As matters now stand, most people think it most ideal that the Progressive Party take a vacation from the ministerial seats after 15 years in the Government House.

Thorsteinn Pálsson did not want to answer any questions about whether he wants a renewed mandate from the voters before the budget bill for 1987 is passed or submitted next fall. "Decisions have to be made at the right moment in politics. And this is not the time for such decisions," he concluded.

CAPTION I:

Working on settling the wage dispute. The picture is taken in the lobby of the Government House. With Thorsteinn Pálsson on the picture are Viglundur Thorsteinsson, chairman of the Federation of Icelandic Manufacturers; Karl Steinar Guðnason, deputy chairman of the Icelandic General and Transport Workers' Federation and Björn Thorhallsson, vice chairman of the Iceland Federation of Labor.

CAPTION II:

Thorsteinn Pálsson in his office in the Finance Ministry.

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ECONOMIC

ICELAND

NATIONAL ECONOMIC INSTITUTE FORECASTS LOWER BUDGET DEFICIT

Reykjavik MORGUNELADID in Icelandic 23 Apr 86 p 5

[Article: "National Economic Institute: Budget Deficit At Least 1.5 Billion Kronur"]

[Text] Real Interest Rate Likelier to Increase Than Decrease

The National Economic Institute forecasts that the budget deficit this year could amount to at least 1.5 billion kronur, or slightly over 1 percent of the national production. Revision of the fiscal budget for the current year estimates 7 percent lower revenue and 2-2.5 percent lower expenses than the budget estimates. The government aims at obtaining more funds through domestic borrowing outside the bank system, and the National Economic Institute feels that would reduce expansionary effects which would lead to an increase rather than a decrease in the real interest rate in the competition for domestic savings.

In the National Economic Institute periodical, Summary of the National Economy, it is stated that the budget deficit is jeopardizing the aims of decreased inflation and lower trade deficit, which are the objectives of the parties in the labor market and the government, because of increased domestic demand.

In the wake of the wage agreements, the budget presuppositions for price, wages and exchange rate changed. It is estimated that the revenue will decrease by 2.6 billion kronur from what was estimated in the budget. Expenditures will, however, not decrease by more than 900 million kronur. The National Economic Institute points out that the development of state finances this year is dependent on some uncertain factors, especially due to decreased import fee on automobiles and lower taxes. Provisional figures from the State Accounting Office about the state of the Treasury during the first quarter of this year show a 1.8 billion kronur deficit. This is 5 percent of the estimated state revenue. This deficit can be explained by, for example, unusually high payments for export subsidies; increased agricultural subsidies; high interest fees and delay in collecting revenue. Although these effects will be decreasing, the National Economic Institute feels that the state of the Treasury will be difficult this year and there are few indications of improvement. It may be mentioned that the budget deficit last

year was 2.4 billion kronur (2 percent of the national production), according to provisional figures which is almost a three times greater deficit than the 1985 budget estimate.

At the end of 1985, public foreign debt amounted to 4.8 billion kronur, or 400 million kronur beyond the credit budget estimate. On the other hand, domestic credit procurement is greater than estimated, or 3.4 billion kronur of which the greatest part is due to be the loans from the Central Bank. Public credit procurement (gross) was therefore 7.5 percent of the national production.

The credit budget for this year estimated 5.5 billion kronur credit. This amount did, however, increase to 6.8 billion kronur after the National Economic Institute revision and the plan is to borrow 3.5 billion kronur domestically.

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2 July 1986

ECONOMIC

ICELAND

PAPER ENCOURAGED BY LATEST ECONOMIC TRENDS

Reykjavik MORGUNBLADID in Icelandic 24 Apr 86 p 40

[Editorial: "Beginning of Summer"]

[Excerpts] Few holidays have deeper roots in the hearts and minds of Icelanders than the First Day of Summer. The darkness of winter; the short days of winter and the frost and ice of mother nature are behind us. Ahead is the world of no dark nights which revives the fertile soil. The same may in fact be said about the soul and sense of the people. Even old telephone poles ring in the sun and become green again, wrote the loved city poet, Tomas Gudmundsson.

Icelanders do indeed bid farewell to winter with more reluctance than did people in years gone by. Winter sports that bring healthy exercise to thousands of people are becoming increasingly more popular. The Blafjoll Recreation Center and other ski areas in the vicinity of the capital now play a considerable part in people's hobbies. The winter is, to be sure, fickle and dangerous as before but the human has succeeded in harnessing it, to a certain extent anyway, and utilizing it for pleasure.

Our country is, as before, on the border of the habitable part of (the) earth. Not much has to go amiss in order for the nation to have to face serious facts. If the average temperature decreases by several degrees or if the fish stock of our main consumption fish in the Icelandic fishing banks would collapse, we would be in serious trouble. This country does, however, possess considerable wealth if the nation knows how to utilize it: the fishing banks, the fertile soil and the waterfalls. To that is added the wealth within the people themselves; the education of the people; the people's knowledge and productivity.

It is also spring in our national economy. The inflation which was at 130 percent during the first quarter of 1983, only three years ago, and was heading upwards fast with everything being unchanged, will be less than 10 percent from the beginning to the end of this current year, according to the latest National Economic Institute Forecast. The national production increased by 3 percent during last year and a 3.5 percent economic growth is forecast for this year. The forecast is for 5 percent increase in national income this year which is the result of lower oil prices in the world market

and some increase in fish prices, among other things. The buying power of salaried people increased by 5-6 percent per person last year, according to National Economic Institute sources, although the buying power of wage rates has remained the same. Based on total income, the forecast is for 4-5 percent increase in purchasing power per person in 1986.

Nonetheless, the sky is not crystal clear in our economic life. The trade deficit is and has been great; it will probably be 3.5 billion kronur this year, or 2.5 percent of the national production which is somewhat less than last year. Foreign debt amounted to 61 billion kronur at the beginning of the year which corresponds to 55 percent of the national production. The outlook is, however, that this debt ratio will decrease to 50 percent this year because of increased national income and the lowered exchange rate of the U.S. dollar. The total credit burden of interest and amortization of foreign debts will probably be about 20 percent of our total export income. The third cloud on our economic sky is the budget deficit which will continue to be large. The need is therefore great for continued solidarity of the nation if it plans to work itself out of the predicament and proceed toward economic security and improved standard of living.

Despite considerable economic problems, we have nothing to fear except our own internal conflict and dissension. Providence supplies us with an opportunity to mold our own fortune. External conditions are more to our advantage than often before. There was hope of spring in the national economy when the labor movement, employers and the government agreed on national unity and secured peace to work, decreased inflation and rising purchasing power. But there are clouds on this sky of compromise. National peace does not appeal to all. Frowning is a political logo for extremist groups which, for example, are housed within the People's Alliance. The current and constant attacks by these groups on the chairman of the Icelandic Federation of Labor and the chairman of the Confederation of Icelandic Employers because of the new wage agreements support this fact.

We welcome the spring of nature, the spring in our national economy and culture. We must, however, stand guard against various problems.

MORGUNBLADID wishes all its readers and all Icelanders a happy summer.

9583

CSO: 3626/31

ECONOMIC

PORTUGAL

BRIEFS

RISE IN UNEMPLOYMENT--The number of registered unemployed at the end of March 1986 rose to 371,972, that is, 1.2 percent more than in the previous month and 11.1 percent more than 1 year ago. That month, women represented 54.1 percent of the registered unemployed and applicants for a fires job, 1 percent, according to the Employment and Occupational Training Institute. The number of registered unemployed receiving compensation also increased to 104,422, representing 28.1 percent of the registered unemployed this month. The number of unfilled available jobs at the end of the month was 3,323, the monthly and annual variations of this variable being over 8.4 and less than 7.2 percent, respectively. Distribution of the unemployed by district shows that the majority is concentrated in the districts of Lisbon (78,405), Oporto (50,163), and Setubal (44,483). During the month, 15,262 requests for employment were received, 14,922 of which pertained to individuals, and 9,979 of these requested unemployment compensation. During the same period, 1,789 job offers were received and 764 job placements were effected. Considering the overall movement for the first quarter of 1986, 43,866 unemployment registrations (44,750 in 1985) and 5,136 job offers (4,762 in 1985) were received. [Text] [Lisbon O DIA in Portuguese 17 May 86 p 9] 8711/9435

CSO: 3542/104

ECONOMIC

TURKEY

BRIEFS

USSR GAS PIPELINE STUDY—The call for bids for the preliminary study on converting to natural gas the gas distribution installations and infrastructures of the city of Ankara, which will solve Ankara's air pollution and heating problems, has been officially proclaimed. The competitive bidding announcement, related to the preliminary study services which will be carried out by the EGO [Electric Power, Gas, and Bus Administration] on behalf of the Ankara Buyuksehir municipality, was published in the Official Gazette. In connection with the natural gas which it is planned to convey from the Soviet Union to Turkey toward the end of 1987 and to Ankara in 1988, bids for the adjudication of a preliminary study on the pipelines which will be connected to the existing coal-gas network and the new pipelines to be installed in residential areas for distribution throughout Ankara, will be taken on 21 May. EGO General Directorate officials let it be known that through the preliminary study services that will be performed by the aforesaid foreign firms, in the first stage the 1,000-kilometer long existing network will be adapted to natural gas and the new locations to which natural gas will be conveyed will be determined. The officials noted that a decision will be reached with the shortest delay regarding the preliminary study contract tenders that will be taken in May on natural gas distribution and infrastructure installations, and that the firm selected for preliminary study services will be designated. [Text] [Istanbul DUNYA in Turkish 3 Apr 86 p 3] 12278/6091

MANUFACTURING INDUSTRY GROWTH—The manufacturing industry achieved a 9.1 percent growth in the last quarter of 1985 in relation to the same period last year. The results of the evaluation research titled "The Situation of the Manufacturing Industry in the Last Quarter of 1985," prepared by the Research Section of the Istanbul Chamber of Industry on the basis of the data obtained from close to 1,000 big manufacturing enterprises, have been published in its quarterly report on the situation of the manufacturing industry. According to the ISO [Istanbul Chamber of Industry] research, in the last quarter of 1985 the manufacturing industry achieved in fixed prices and, relative to the same period in 1984, in real prices a 9.1 percent growth. This ratio is rather higher than the growth ratios registered in the other three quarters of the year and, in the view of the member enterprises of the Chamber, [indicative] of performance. According to the ISO report, in the fourth quarter of 1985 sales rose above production and achieved an excess on the order of 0.1 percent. At the same time, the manufacturing industry maintained in the last quarter of 1985 its high level ratio of capacity use, for the first time in

the year reaching the uncontested average ratio of 63.2 percent. According to the data in the ISO report, as was the case in previous quarters insufficient demand was again listed first among the reasons that prevent manufacturing enterprises from using their full capacity. [Text] [Istanbul DUNYA in Turkish 3 Apr 86 p 1] 12278/6091

LARGE WHEAT HARVEST PREDICTED--After a mild winter in the Aegean Area, barley and wheat have reached the height of a man. If it rains a few more times, it was pointed out that barley and wheat grains would further ripen and hasten harvesting. Officials of the Aegean Area Chamber of Agriculture said that this year's cereal harvest will reach record levels and that producers will have cause to rejoice. As for producers, they are talking in this manner: "This year's seasonal weather conditions were very good. And now we are waiting for the government to set basic prices which will give us cause to rejoice." [By Kenan Seven] [Text] [Istanbul GUNAYDIN in Turkish 2 Apr 86 p 3] 12278/6091

CSO: 3554/38

ENERGY

DENMARK

BRIEFS

NORTH SEA FIELD EXPANSION—The Danish Underground Consortium has agreed to prepare for an expansion of the Tyra field in the North Sea which will increase the production of condensate—liquid hydrocarbon which corresponds to light oil—which comes with all gas production. The expansion represents an investment of about 350 million kroner and production is expected to begin in the spring of 1987. [Text] [Copenhagen BERLINGSKE TIDENDE in Danish 26 May 86 Sect III p 3] 9287

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